

Research Update:

**Dutch Distribution Network
Operator Alliander Upgraded To
'A+'; 'A-1' Short-Term Rating
Affirmed; Outlook Positive**

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Overview

- Dutch electricity and gas distribution network company Alliander N.V. reports a 54% increase in operating profit for the first six months of 2011 due to higher tariffs and the consolidation of Endinet.
- We believe that Alliander's adjusted credit measures have strengthened due to the approved tariff increases and recent hybrid issuance.
- We are therefore raising our long-term corporate credit rating on Alliander to 'A+' from 'A', and affirming our short-term rating on the company at 'A-1'.
- The positive outlook reflects our view that we could raise the long-term rating to 'AA-' if we deem the improvement in Alliander's financial profile to be sustainable over the medium term.

Rating Action

On Aug. 30, 2011, Standard & Poor's Ratings Services raised its long-term corporate credit rating on The Netherlands-based energy distribution network operator Alliander N.V. to 'A+' from 'A'. At the same time, the 'A-1' short-term corporate credit rating on Alliander was affirmed. The outlook is positive.

Rationale

The rating actions reflect our view that Alliander's financial metrics have significantly improved due to healthy tariff increases confirmed by the regulator for the 2011-2013 regulatory period and the consolidation of Endinet. In addition, we consider that the issuance of hybrid securities at the end of 2010 has strengthened the company's adjusted debt measures.

The Dutch energy regulator has confirmed tariff increases for all Netherlands-based distribution companies for the 2011-2013 regulatory period, enabling them to cover an increase in costs in the previous period. During 2011-2013, we understand that Alliander will implement tariff level increases of 7.0% in electricity and 2.7% in gas at grid operator Liander; and 5.5% in electricity and 1.6% in gas at grid operator Endinet. These tariff level increases are a contributing factor to the company's strong results for the first half of 2011. In addition, Alliander issued €500 million of subordinated perpetual securities in November 2010, to which we assigned intermediate equity content and a rating of 'BBB+'. The proceeds from this issuance largely

offset the depletion of Alliander's cash resources resulting from the acquisition, for €712 million, of Dutch distribution network operator Endinet N.V. in July 2010.

We anticipate that Alliander will be able to record positive discretionary cash flows over the medium term due to moderate planned capital expenditures and dividend payments, supporting the stability of its credit metrics.

Today's rating actions reflect that, as a result of these developments, we think that Alliander's Standard & Poor's-adjusted ratios will exceed the levels that we consider commensurate for the rating over the medium term. For example, we anticipate that adjusted funds from operations (FFO) to debt will increase to more than 30% in 2012 and 2013, but might fall back to about 25% in 2014. These ratios exclude the effect of any potential acquisitions, adverse regulatory interventions, or extraordinary returns to shareholders. In this respect, we note that Alliander's financial policy includes a number of financial ratios that act as minimum ratio requirements for the company. These include FFO to debt of more than 20%, which is lower than the company's, and our, current base case.

The ratings on Alliander reflect our view of the company's low-risk regulated electricity and gas distribution businesses, stable and predictable operating cash flow, high quality network assets, and stable operating performance. Rating constraints include regulatory reset risk and exposure to incentive-based regulation; our anticipation that Alliander might participate in further consolidation of the Dutch energy distribution sector; and counterparty and liquidity risks related to remaining cross-border lease agreements on about 6% of the company's assets.

The 'A+' long-term rating on Alliander is based on the company's stand-alone credit profile, which we assess at 'a+', and on our opinion that there is a "moderate" likelihood that its owners would provide timely and sufficient extraordinary support in the event of financial distress.

In accordance with our criteria for government-related entities, our view of a "moderate" likelihood of extraordinary ownership support is based on our assessment of Alliander's:

- "Important" role, given its strategic importance to the provinces and municipality owners, as the monopoly provider of gas and electricity distribution services in its license areas; and
- "Limited" link to the owners, owing to the dispersed ownership structure. Alliander's shareholders are the provinces of Gelderland (45%), Friesland (13%), and Noord-Holland (9%), the municipality of Amsterdam (9%), as well as 54 other municipalities and provinces--each holding less than 3%.

Liquidity

The 'A-1' short-term rating reflects our view of Alliander's strong liquidity position. On June 30, 2011, the proportion of sources to uses of cash exceeded 1.5x for the subsequent 24 months, in our view.

On June 30, 2011, Alliander had unrestricted cash and marketable securities of €707 million, comprising in part the proceeds from the issuance of subordinated securities in November 2010. In addition, the company had a €600 million committed bank facility expiring in July 2016 that it expects to remain undrawn. There is ample room under the financial covenants, which are slightly stricter than the regulator's minimum ratio requirements for network operators in The Netherlands. These requirements are in turn lower than the minimum ratio requirements set out in Alliander's financial policy.

Against total sources of liquidity of €1,307 million (including €600 million under the committed bank facility) on June 30, 2011, Alliander had short-term debt maturities in the next 12 months of €504 million. The latter includes a €500 million debt maturity in April 2012, which we understand the company would refinance in a timely manner.

Outlook

The positive outlook reflects our view that Alliander will continue to report robust cash flow-based debt coverage ratios over the medium term, supported by healthy tariff increases in the 2011-2013 regulatory period. We would consider a one-notch upgrade to 'AA-' if we believe that the company is able to sustainably report an adjusted FFO-to-debt ratio of about 25%, while maintaining an unchanged business risk profile.

If we believe the company is likely to recapitalize its balance sheet to be in line with its publicly stated FFO to debt minimum ratio requirement of 20%--either through an extraordinary dividend distribution, negative regulatory intervention, or further sector consolidation in The Netherlands--we would likely revise the outlook back to stable.

Related Criteria And Research

All articles listed below are available on RatingsDirect on the Global Credit Portal, unless otherwise stated.

Criteria:

- Principles Of Credit Ratings, Feb. 16, 2011
- Rating Government-Related Entities: Methodology And Assumptions, Dec. 9, 2010
- Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010
- Standard & Poor's Standardizes Liquidity Descriptors For Global Corporate Issuers, July 2, 2010
- Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Business Risk/Financial Risk Matrix Expanded, May 27, 2009
- 2008 Corporate Criteria: Analytical Methodology, April 15, 2008
- 2008 Corporate Criteria: Ratios And Adjustments, April 15, 2008

Ratings List

Upgraded; CreditWatch/Outlook Action; Ratings Affirmed

	To	From
Alliander N.V.		
Corporate Credit Rating	A+/Positive/A-1	A/Stable/A-1
Senior Unsecured Debt	A+	A
Junior Subordinated Debt	A-	BBB+

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Complete ratings information is available to subscribers of RatingsDirect on the Global Credit Portal at www.globalcreditportal.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following Standard & Poor's numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

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