STANDARD & POOR'S RATINGS SERVICES
McGRAW HILL FINANCIAL

RatingsDirect®

Research Update:

Ameren Corp. And Subsidiaries Issuer Credit Ratings Raised To 'BBB+', Outlook Is Stable

Primary Credit Analyst:
Gabe Grosberg, New York (1) 212-438-6043; gabe.grosberg@standardandpoors.com

Secondary Contact:
Gerrit W Jepsen, CFA, New York (1) 212-438-2529; gerrit.jepsen@standardandpoors.com

Table Of Contents

Research Update:

Ameren Corp. And Subsidiaries Issuer Credit Ratings Raised To 'BBB+', Outlook Is Stable

Overview

- Ameren Corp.'s sale of its coal merchant assets demonstrates management's ability to effectively execute on its revised lower risk strategy focused on its regulated operations.
- We are raising the issuer credit ratings on Ameren, Ameren Illinois Co., and Ameren Missouri to 'BBB+' from 'BBB'. The outlook is stable.
- We are raising the rating on Ameren Corp.'s senior unsecured debt to 'BBB' from 'BBB-'. We are also raising the ratings on Ameren Illinois and Ameren Missouri's senior secured debt to 'A' from 'A-'. We view Ameren Illinois and Ameren Missouri as 'core' subsidiaries of Ameren Corp.
- The stable outlook reflects our view that the 'excellent' business risk profile will continue to marginally improve, reflecting disproportionate investments to the company's lower risk transmission business and that the financial measures will continue to be in the middle of the range for the 'significant' financial risk profile category.

Rating Action

On Dec. 4, 2013, Standard & Poor's Ratings Services raised its issuer credit rating on Ameren Corp., Ameren Illinois Co. (AI), and Ameren Missouri (AM) to 'BBB+' from 'BBB'. The outlook is stable. We also raised the rating on Ameren Corp.'s senior unsecured debt to 'BBB' from 'BBB-', raised the ratings on Ameren Illinois and Ameren Missouri's senior secured debt to 'A' from 'A-', and raised the rating on the unsecured debt at Ameren Illinois to 'BBB+' from 'BBB'. We removed all the ratings from CreditWatch Positive, where we placed them on March 14, 2013.

Rationale

The upgrades reflect management's commitment to credit quality and the high certainty regarding the company's strategic direction. The company will be a fully rate-regulated business with primary operations in Illinois and Missouri. Furthermore, management will center its time, focus, and energy on effectively managing regulatory risk and expanding its regulated businesses. The successful implementation of both initiatives supports credit quality, in our view. The upgrades also reflect our assessment of the company's business risk profile as "excellent" and its financial risk profile as "significant".

Standard & Poor's bases its ratings on Ameren, AI and AM on the consolidated group credit profile and application of our Group Rating Methodology. AI and

AM are deemed core entities that are integral to Ameren and are therefore rated at the same level as Ameren.

Our 'excellent' business risk assessment on Ameren incorporates our "very low" industry risk assessment of the regulated utility industry and a "very low" country risk based on the company's sole focus on U.S. operations and markets. The company's size (more than 3.3 million electric and gas customers) and regulatory diversity that includes the Illinois Commerce Commission (ICC), Missouri Public Service Commission, and the Federal Energy Regulatory Commission (FERC) support its credit quality. Furthermore, the company's strategic decision to disproportionately invest in lower risk electric transmission that the FERC regulates, which we view as one of the most credit-supportive jurisdictions, prospectively strengthens the company's business risk profile. The company has worked diligently with its stakeholders in Illinois to reduce regulatory lag and we expect that the company will continue similar efforts in Missouri. Negative for the company's business risk profile is the continued weak economic growth in its service territory, particularly Missouri, which has dampened overall sales growth.

We base our significant assessment of Ameren's financial risk profile on our expectations that financial measures will moderately weaken from current levels, reflecting the company increased capital spending. We expect annual capital spending to well exceed $1.5 billion over the next three years, reflecting higher investments in lower risk regulated electric transmission. For the 12 months ended Sept. 30, 2013, funds from operations was 21% and debt to EBITDA was 3.5x. We expect that the higher capital spending will be partially offset by ongoing rate case increases and the use of infrastructure riders that will allow some of Ameren's subsidiaries to earn their allowed return on equity. We expect that Ameren's core financial measures will be in the middle of the significant range of the medial volatility table.

Our base case projections assume:
- U.S. GDP growth of 1.6% this year and 2.5% in 2014.
- The company's sales growth is essentially flat, reflecting a combination of persistently slow economic growth in its service territory and ongoing customer conservation efforts.
- Management of regulatory risk continues to gradually improve in Illinois.
- Annual capital spending that is greater than $1.5 billion.
- Disproportionate capital investments in electric regulated transmission.
- The company can earn its allowed return on equity for assets regulated by the FERC.
- Operating measures for safety, reliability, and generation availability continue to gradually improve.

This results in the following core financial ratios:
- Funds from operations to debt of 16% to 19% for the next three years.
- Debt to EBITDA of 3.9x to 4.2x for the next three years.
- Both financial measures are comfortably in the middle of the significant financial risk profile range.

The ratings also reflect the application of a one-notch negative adjustment for our "comparable rating analysis." This reflects our expectations that the company's business risk profile will generally remain at the lower end of the excellent business risk profile category. Pressuring the company's business risk profile is the company's management of regulatory risk that, although improving, continues to result in regulatory lag in some of its businesses so that the company cannot consistently earn its allowed return on equity. In addition, the slow economic growth in the company's service territory is generally also weaker when compared with peers. We also view the company's operation of a single nuclear generating plant as a relatively higher-risk, increasing the company's operating risk compared with peers.

Liquidity

We consider liquidity to be "adequate" under our liquidity methodology. The company's projected liquidity sources--mostly operating cash flow and available bank lines--exceed its projected uses, which consist mainly of maintenance capital spending and debt maturities, by about 1.3x. Ameren's ability to absorb high-impact, low probability events with limited need for refinancing, flexibility to lower capital spending or sell assets, its sound bank relationships, solid standing in credit markets, and generally prudent risk management also support our assessment that liquidity is adequate. Specifically, we believe liquidity sources would exceed uses even if EBITDA were to decrease by 15%. In our assessment, Ameren has good relationships with its banks and has a good standing in the credit markets, having successfully issued debt during a variety of credit conditions.

Ameren's credit agreement includes financial covenants requiring consolidated debt to total capitalization of less than 65% and consolidated funds from operation plus interest expense to consolidated interest expense that is greater than 2x. As of Sept. 30, 2013, the company was in compliance with these covenants and we expect it will maintain a comfortable level of compliance.

Outlook

The rating outlook reflects our base case forecast level of adjusted funds from operations to debt of about 18% and debt to EBITDA of about 4x. Fundamental to our forecast is our expectation that the company will continue to manage its regulatory risk, enabling some of the regulated companies to earn their allowed return on equity. We also expect that the company will disproportionately invest in lower risk rate-regulated electric transmission assets that will gradually strengthen the company's business risk profile.

Upside scenario

We could raise the ratings if the company's business risk profile improves such that the regulatory lag consistently diminishes and that the economic growth in the company's service territory strengthens. We could also raise the ratings if the company's financial measures improve above our base forecast, such that the core financial ratios are consistently at the high end of the significant financial risk profile category. This could occur when the company completes its large capital projects while simultaneously effectively managing costs.

Downside scenario

We could lower the ratings if the company's ability to manage its regulatory risk weakens or if its financial performance unexpectedly deteriorates such that the core financial measures are consistently below the range for the significant financial risk profile category. This could occur if rate case outcomes are consistently weaker than expected, regulatory lag increases, or if there is a material increase to capital spending that is primarily funded with debt.

Ratings Score Snapshot

Corporate Credit Rating: BBB+/Stable/A-2

Business risk: Excellent

- Industry risk: Very low risk
- Country risk: Very low risk
- Competitive position: Strong
- Financial risk: Significant
- Cash flow leverage: Significant

Anchor: a-

Modifiers:

- Diversification: No impact
- Capital structure: Neutral (no impact)
- Liquidity: Adequate (no impact)
- Financial policy: Neutral (no impact)
- Management and Governance: Satisfactory (no impact)
- Comparable rating analysis: Unfavorable (-1 notch)

Recovery analysis

- We rate the senior unsecured debt at Ameren one notch lower than the corporate credit rating because of structural subordination. This results from priority obligations exceeding 20% of total assets.
- We assign recovery ratings to first-mortgage bonds (FMB) issued by U.S. utilities, which can result in issue ratings being notched above a utility's corporate credit rating (CCR) depending on the rating category and the extent of the collateral coverage. The FMBs issued by U.S. utilities are a form of "secured utility bond" (SUB) that qualify for a recovery rating as defined in our criteria (see "Collateral Coverage and Issue Notching Rules for '1+' and '1' Recovery Ratings on Senior Bonds

Secured by Utility Real Property," published Feb. 14, 2013).

- The recovery methodology is supported by the ample historical record of 100% recovery for secured bondholders in utility bankruptcies in the U.S. and our view that the factors that enhanced those recoveries (limited size of the creditor class and the durable value of utility rate-based assets during and after a reorganization given the essential service provided and the high replacement cost) will persist in the future.
- Under our SUB criteria, we calculate a ratio of our estimate of the value of the collateral pledged to bondholders relative to the amount of FMBs outstanding. FMB ratings can exceed a utility's CCR by up to one notch in the 'A' category, two notches in the 'BBB' category, and three notches in speculative-grade categories, depending on the calculated ratio.
- AM's FMBs benefit from a first-priority lien on substantially all of the utility's real property owned or subsequently acquired. Collateral coverage of about 3x supports a recovery rating of '1+' and an issue rating two notches above the ICR.
- AI's FMBs benefit from a first-priority lien on substantially all of the utility's real property owned or subsequently acquired. Collateral coverage of about 3.5x supports a recovery rating of '1+' and an issue rating two notches above the ICR.

Related Criteria And Research

- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Corporates - General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Nov. 19, 2013
- General Criteria: Ratings Above The Sovereign—Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013

Ratings List

Ratings Raised

	To	From
Ameren Corp.		
Ameren Missouri		
Corp. credit rating	BBB+/Stable/A-2	BBB/Watch Pos/A-2
American Illinois Co.		
Corp. credit rating	BBB+/Stable/NR	BBB/Watch Pos/A-2
Ameren Corp.		
Senior unsecured	BBB	BBB-/Watch Pos
American Illinois Co.		
Ameren Missouri		

Senior secured	A	A-/Watch Pos
Recovery Rating	1+	1+

Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com and at www.spcapitaliq.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.