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Ameren Corp.

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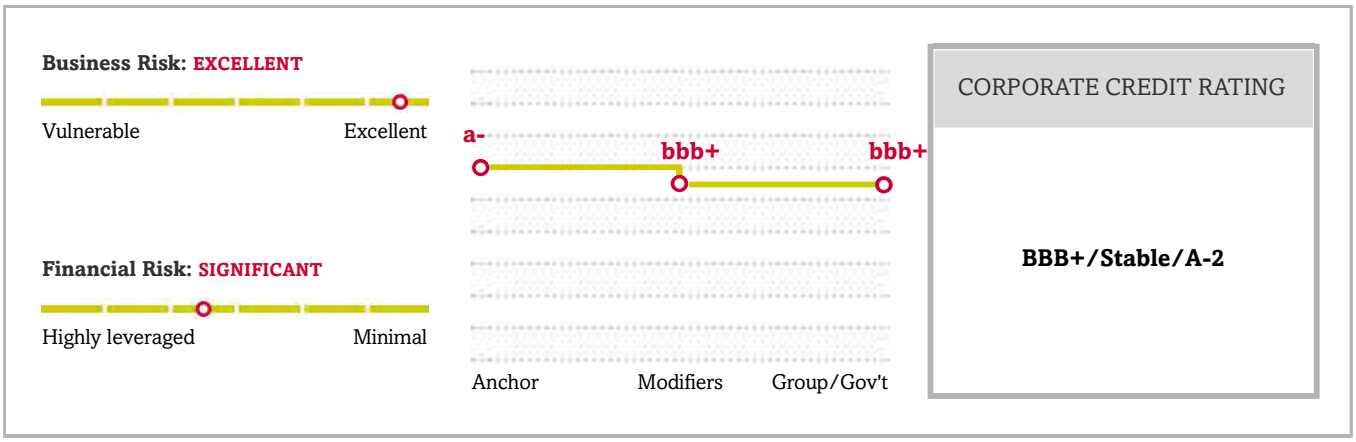
Ameren Corp.



Rationale

Business Risk: Excellent	Financial Risk: Significant
• Fully rate-regulated lower-risk electric and gas utility businesses • Slower-than-average economic growth within the company's service territory • Higher operational risk of a single nuclear generating plant	• Use of the medial volatility table, reflecting the regulated utility business model that includes the higher operating risk of regulated generation • Core financial measures that are consistent with the middle of the range for the significant financial risk profile category • Higher capital spending in 2014

Outlook: Stable

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.

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.

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.

Standard & Poor's Base-Case Scenario

Assumptions

- Continued weak economic growth that supports our expectation for flat regulatory sales growth
- Operating measures for safety, reliability, and generation reliability continue to gradually improve
- No material improvement assumed to the company's management of regulatory risk
- Company rate case filings are continually filed on a regular basis
- High capital spending

Key Metrics

	2013A	2014E	2015E
FFO/debt (%)	23.7	17-21	17-21
Debt/EBITDA (x)	3.5	3.5-4	3.5-4
EBITDA interest coverage (x)	4.3	4-5	4-5

A—Actual. E—Estimated.

Company Description

Ameren is a large U.S.-based diversified utility holding company. The company's regulated businesses distribute electricity and gas to about 3.3 million customers in Illinois and Missouri.

Business Risk: Excellent

We assess Ameren's business risk profile as "excellent", reflecting 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 the company will continue similar efforts in Missouri. We consider the service territory's continued weak economic growth, particularly Missouri, which has dampened overall sales growth, as a negative credit factor.

Peer comparison

Table 1

Ameren Corp. -- Peer Comparison

Industry Sector: Combo

	Ameren Corp.	**CMS Energy Corp.**	**DTE Energy Co.**	**Great Plains Energy Inc.**	**Xcel Energy Inc.**
Rating as of June 26, 2014	BBB+/Stable/A-2	BBB/Positive/A-2	BBB+/Positive/A-2	BBB+/Stable/A-2	A-/Stable/A-2
	--Average of past three fiscal years--				
(Mil. $)					
Revenues	6,732.3	6,394.5	8,913.5	2,358.1	10,566.0
EBITDA	2,169.2	1,886.3	2,442.5	969.8	3,128.1
Funds from operations (FFO)	1,683.3	1,286.5	1,695.4	711.5	2,425.9
Net income from cont. operations	19.0	413.3	681.7	208.2	898.3
Cash flow from operations	1,724.6	1,359.5	2,070.8	665.5	2,422.9
Capital spending	1,262.3	1,212.6	1,709.0	584.4	2,678.6
Free operating cash flow	462.3	146.9	361.8	81.1	(255.6)
Discretionary cash flow	77.6	(98.4)	(65.0)	(53.6)	(758.1)
Cash and short-term investments	41.2	35.5	(16.6)	2.4	30.5
Debt	7,670.9	9,540.6	9,180.7	4,374.8	12,385.6
Equity	7,102.7	3,267.0	7,761.2	3,373.8	9,107.4
Adjusted ratios					
EBITDA margin (%)	32.2	29.5	27.4	41.1	29.6
Return on capital (%)	(2.3)	9.0	7.9	7.2	8.0
EBITDA interest coverage (x)	4.0	3.4	4.2	3.7	4.6
FFO cash int. cov. (X)	5.0	4.7	4.9	4.2	5.4
Debt/EBITDA (x)	3.5	5.1	3.8	4.5	4.0
FFO/debt (%)	21.9	13.5	18.5	16.3	19.6

Table 1

Ameren Corp. -- Peer Comparison (cont.)					
Cash flow from operations/debt (%)	22.5	14.3	22.6	15.2	19.6
Free operating cash flow/debt (%)	6.0	1.5	3.9	1.9	(2.1)
Discretionary cash flow/debt (%)	1.0	(1.0)	(0.7)	(1.2)	(6.1)

Financial Risk: Significant

S&P Base-Case Cash Flow And Capital Structure Scenario

- Sales growth is essentially flat, reflecting a combination of persistently slow economic growth in its service territory and ongoing customer conservation efforts.
- Annual capital spending that is greater than $1.5 billion.
- Disproportionate capital investments in electric-regulated transmission.
- The company earns its allowed return on equity for assets regulated by the FERC.
- Operating measures for safety, reliability, and generation availability continue to gradually improve.

Financial summary

For Ameren, we use the medial volatility table, reflecting the company's lower-risk regulated utility business model that includes the higher operating risk of regulated generation.

We base our significant assessment of Ameren's financial risk profile on our expectation that financial measures will moderately weaken from current levels, reflecting the company increased capital spending. We expect annual capital spending to exceed $1.5 billion over the next three years, reflecting higher investments in lower-risk regulated electric transmission. We also 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.

Table 2

Ameren Corp. -- Financial Summary					
Industry Sector: Combo					
	--Fiscal year ended Dec. 31--				
	2013	2012	2011	2010	2009
Rating history	BBB+/Stable/A-2	BBB-/Stable/A-3	BBB-/Positive/A-3	BBB-/Stable/A-3	BBB-/Stable/A-3
(Mil. $)					
Revenues	5,838.0	6,828.0	7,531.0	7,638.0	7,090.0
EBITDA	1,979.5	2,266.5	2,261.5	2,392.0	2,222.0
Funds from operations (FFO)	1,638.0	1,689.9	1,721.8	1,831.9	1,719.5
Net income from continuing operations	512.0	(974.0)	519.0	139.0	612.0
Cash flow from operations	1,637.0	1,655.9	1,880.8	1,820.9	1,978.5
Capital expenditures	1,424.0	1,301.0	1,062.0	1,121.0	1,784.0

Table 2

Ameren Corp. -- Financial Summary (cont.)					
Free operating cash flow	213.0	354.9	818.8	699.9	194.5
Dividends paid	391.0	385.0	378.0	372.0	354.0
Discretionary cash flow	(178.0)	(30.1)	440.8	327.9	(159.5)
Debt	6,925.8	7,967.9	8,119.0	8,415.4	8,902.6
Preferred stock	71.0	71.0	71.0	71.0	97.5
Equity	6,615.0	6,696.0	7,997.0	7,813.0	7,962.5
Debt and equity	13,540.8	14,663.9	16,116.0	16,228.4	16,865.1
Adjusted ratios					
EBITDA margin (%)	33.9	33.2	30.0	31.3	31.3
EBITDA interest coverage (x)	4.3	3.9	3.9	4.1	3.7
FFO cash int. cov. (x)	5.4	4.9	4.8	4.9	4.9
Debt/EBITDA (x)	3.5	3.5	3.6	3.5	4.0
FFO/debt (%)	23.7	21.2	21.2	21.8	19.3
Cash flow from operations/debt (%)	23.6	20.8	23.2	21.6	22.2
Free operating cash flow/debt (%)	3.1	4.5	10.1	8.3	2.2
Discretionary cash flow/debt (%)	(2.6)	(0.4)	5.4	3.9	(1.8)
Net Cash Flow / Capex (%)	87.6	100.3	126.5	130.2	76.5
Return on capital (%)	7.3	(20.1)	6.3	8.2	7.9
Return on common equity (%)	7.2	(14.3)	5.8	1.0	7.6
Common dividend payout ratio (un-adj.) (%)	77.0	(40.6)	73.4	280.9	59.6

N.M. - Not Meaningful.

Liquidity: Adequate

Ameren has "adequate" liquidity, in our view, and can more than cover its needs for the next 12 months, even if EBITDA declines by 10%. We expect the company's liquidity sources over the next 12 months will exceed its uses by more than 1.3x. Under our stress scenario, we do not expect that Ameren would require access to the capital markets during that period to meet its liquidity needs.

Principal Liquidity Sources	Principal Liquidity Uses
• Operating cash flow of more than $1.4 billion. • Credit facility availability of about $1.5 billion. • Minimal cash assumed.	• Maintenance capital spending of about $1.2 billion. • Debt maturities of about $500 million in 2014. • Dividend payments of about $400 million.

Debt maturities

Table 3

Ameren Corp. Debt Maturities			
2014	**2015**	**2016**	**2017**
$534 mil.	$120 mil.	$395 mil.	$681 mil.

Covenant Analysis

As of March 31, 2014, the company had an adequate cushion as per the financial covenant (consolidated ratio of total debt to total capital of no more than 65%).

Other Modifiers

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 half 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.

Ratings Score Snapshot

Corporate Credit Rating

BBB+/Stable/A-2

Business risk: Excellent

- **Country risk:** Very low
- **Industry risk:** Very low
- **Competitive position:** Strong

Financial risk: Significant

- **Cash flow/Leverage:** Significant

Anchor: a-

Modifiers

- **Diversification/Portfolio effect:** Neutral (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:** Negative (-1 notch)

Stand-alone credit profile : bbb+

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.

Reconciliation

Table 4

Ameren Corp. Reconciliation

	--Fiscal year ended Dec. 31, 2013--									
Ameren Corp. reported amounts (Mil. $)										
	Debt	**Shareholders' equity**	**Revenues**	**EBITDA**	**Operating income**	**Interest expense**	**EBITDA**	**Cash flow from operations**	**Dividends paid**	**Capital spending**
Reported amounts	6,406.0	6,686.0	5,838.0	1,890.0	1,184.0	398.0	1,890.0	1,636.0	394.0	1,424.0
Standard & Poor's adjustments	--	--	--	--	--	--	--	--	--	--
Interest expense (reported)	--	--	--	--	--	--	(398.0)	--	--	--
Interest income (reported)	--	--	--	--	--	--	30.0	--	--	--
Current tax expense (reported)	--	--	--	--	--	--	99.0	--	--	--
Operating leases	85.6	--	--	22.5	9.5	9.5	13.0	13.0	--	--
Intermediate hybrids reported as equity	71.0	(71.0)	--	--	--	3.0	(3.0)	(3.0)	(3.0)	--
Postretirement benefit obligations/deferred compensation	299.7	--	--	(3.0)	(3.0)	36.2	(50.3)	20.7	--	--
Surplus cash	(22.5)	--	--	--	--	--	--	--	--	--
Share-based compensation expense	--	--	--	20.0	--	--	20.0	--	--	--
Asset retirement obligations	--	--	--	19.0	19.0	19.0	6.3	(11.7)	--	--
Non-operating income (expense)	--	--	--	--	43.0	--	--	--	--	--
US decommissioning fund contributions	--	--	--	--	--	--	--	(18.0)	--	--
Debt - Accrued interest not included in reported debt	86.0	--	--	--	--	--	--	--	--	--
EBITDA - Other income/(expense)	--	--	--	31.0	31.0	--	31.0	--	--	--
D&A - Other	--	--	--	--	(31.0)	--	--	--	--	--
Total adjustments	519.8	(71.0)	0.0	89.5	68.5	67.6	(252.0)	1.0	(3.0)	0.0

Table 4

Ameren Corp. Reconciliation (cont.)

Standard & Poor's adjusted amounts

	Debt	Equity	Revenues	EBITDA	EBIT	Interest expense	Funds from operations	Cash flow from operations	Dividends paid	Capital spending
Adjusted	6,925.8	6,615.0	5,838.0	1,979.5	1,252.5	465.6	1,638.0	1,637.0	391.0	1,424.0

Related Criteria And Research

- Methodology And Assumptions: Liquidity Descriptors for Global Corporate Issuers, Jan. 2, 2014
- Corporate Methodology, Nov. 19, 2013
- Corporate Methodology: Ratios and Adjustments, Nov. 19, 2013
- Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- Methodology: Industry Risk, Nov. 19, 2013
- Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- Group Rating Methodology, Nov. 19, 2013 Collateral Coverage And Issue Notching Rules For '1+' And '1' Recovery Ratings On Senior Bonds Secured By Utility Real Property, Feb. 14, 2013
- Notching Of U.S. Investment-Grade Investor-Owned Utility Unsecured Debt Now Better Reflects Anticipated Absolute Recovery, Nov. 10, 2008

Business And Financial Risk Matrix

	Financial Risk Profile					
Business Risk Profile	Minimal	Modest	Intermediate	**Significant**	Aggressive	Highly leveraged
Excellent	aaa/aa+	aa	a+/a	**a-**	bbb	bbb-/bb+
Strong	aa/aa-	a+/a	a-/bbb+	bbb	bb+	bb
Satisfactory	a/a-	bbb+	bbb/bbb-	bbb-/bb+	bb	b+
Fair	bbb/bbb-	bbb-	bb+	bb	bb-	b
Weak	bb+	bb+	bb	bb-	b+	b/b-
Vulnerable	bb-	bb-	bb-/b+	b+	b	b-

Ratings Detail (As Of June 30, 2014)

Ameren Corp.	
Corporate Credit Rating	BBB+/Stable/A-2
Senior Unsecured	BBB
Corporate Credit Ratings History	
04-Dec-2013	BBB+/Stable/A-2
14-Mar-2013	BBB/Watch Pos/A-2
03-Apr-2012	BBB-/Stable/A-3
22-Nov-2011	BBB-/Positive/A-3

Ratings Detail (As Of June 30, 2014) (cont.)

Related Entities	
Ameren Illinois Co.	
Issuer Credit Rating	BBB+/Stable/A-2
Commercial Paper	
Local Currency	A-2
Preferred Stock	BBB-
Senior Secured	A
Senior Secured	AA-/Stable
Senior Unsecured	BBB+

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