



RatingsDirect®

Summary:

Energinet.dk SOV

Primary Credit Analyst:

Alf Stenqvist, Stockholm (46) 8-440-5925; alf.stenqvist@standardandpoors.com

Secondary Contact:

John D Lindstrom, Stockholm (46) 8-440-5922; john.lindstrom@standardandpoors.com

Table Of Contents

Rationale

Outlook

Standard & Poor's Base-Case Scenario

Business Risk

Financial Risk

Liquidity

Other Modifiers

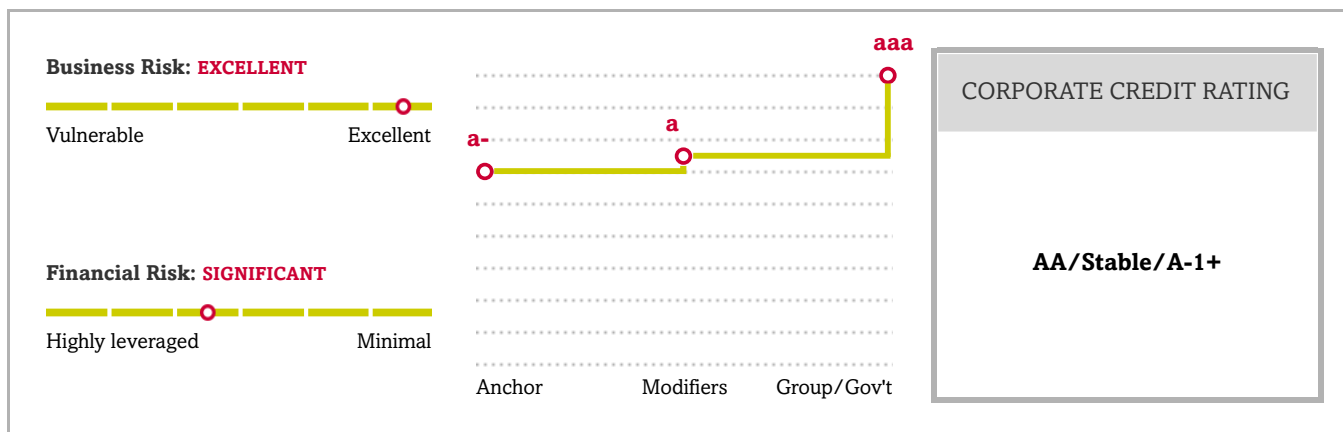
Government Influence

Ratings Score Snapshot

Related Criteria And Research

Summary:

Energinet.dk SOV



Rationale

Business Risk: Excellent	Financial Risk: Significant
<ul style="list-style-type: none"> • Revenues regulated by a stable and supportive regulatory regime. • Efficient electricity transmission network. • Inherently weak return on capital as the company operates on a break-even basis. 	<ul style="list-style-type: none"> • Access to funding at favourable interest rates. • No distribution of dividends to the state. • Sizable investment program, resulting in high leverage and fairly weak credit metrics.

Outlook: Stable

Standard & Poor's Ratings Services' stable outlook on the Danish state-owned transmission system operator (TSO) Energinet.dk SOV is based on our expectation that Energinet will remain focused on its core activities as a Danish monopoly TSO and continue to fund itself primarily through government loans over the medium term. The outlook also reflects the likelihood that we would affirm the ratings on Energinet even if we lowered our assessment of the company's stand-alone credit profile (SACP) by one notch. This approach is in accordance with our criteria for government-related entities and our view of a "very high" likelihood of extraordinary government support for the company.

Downside scenario

The ratings could come under pressure if the current regulatory framework changed with negative consequences for Energinet, or if the company's credit metrics weakened to a level that we would no longer view as commensurate with a "significant" financial risk profile. This could happen if Energinet's ratio of funds from operations (FFO) to debt fell below 6% or if FFO to interest coverage fell below 2.0x without expectation of recovery. We could also lower the ratings if our assessment of the level of state support weakened, which could result from a partial selloff. However, we consider these scenarios to be unlikely in the medium term.

Upside scenario

Given the company's sizable investment program and limitations to increasing profitability because of the regulatory framework, we currently see limited upside potential for the ratings.

Standard & Poor's Base-Case Scenario

Assumptions	Key Metrics			
<ul style="list-style-type: none"> • Energinet continues to be able to pass all costs to customers, as stipulated in the existing regulatory framework. • Continued implementation of the current Danish krone (DKK) 37 billion investment plan. 		2013a	2014e	2015e
	Capex (bil. DKK)	3.2	3.3	~4
	FFO/debt (%)§	6.9	6-7	6-7
	FFO interest coverage§	3.3	~3	2-4
	§Fully Standard & Poor's-adjusted.			
	a--Actual. e--Estimate.			

Business Risk: Excellent

Energinet's business risk profile benefits from regulated electricity and gas transmission operations that we view as having a "very low" industry risk. In our view, the regulatory framework under which Energinet operates is stable and predictable--it has not changed since 2005, when Energinet was created. The company is regulated through the Act on Energinet, which stipulates that the overall electricity and gas infrastructure that Energinet is responsible for shall remain public property. The regulation of allowed return is based on cost-cover principles that permit Energinet to recognize necessary costs of efficient operations plus a return on equity roughly equal to inflation. So far, Energinet has never incurred a cost that it has not been able to pass on to customers under the regulatory framework, supporting our view that the company operates an efficient network.

Energinet's profitability level is fairly low, with a return on capital in 2010-2013 averaging a meagre 3.4%. This is, however, natural, as the company operates as a non-profit organization on a breakeven basis.

Financial Risk: Significant

Our assessment of Energinet's financial risk profile as "significant" is based on its high leverage and weak credit metrics following its extensive ongoing investment program and the acquisition of regional transmission grids in 2012, leading to FFO to debt of 6.9% in 2013.

However, when assessing Energinet's financial risk profile we also take into account the interest coverage ratios that are strong compared to our expectations for a "significant" financial risk profile under the low-volatility table, as per our criteria. For example, in 2013 FFO to interest coverage was 3.6x. Energinet is part of the Danish government relending process and as a result benefits from favorable interest rates on government loans, which constitute approximately 90% of the reported interest bearing debt.

We understand that Energinet pays interest equal to the Danish government's borrowing rate plus a small spread of 15 basis points to the Ministry of Finance for administration.

Liquidity: Exceptional

We base our assessment of Energinet's liquidity as "exceptional" principally on the company's access to government loans and the added financial flexibility that this brings, as well as our anticipation of ongoing government support for Energinet when needed, most likely through an increase in the borrowing limit. This was demonstrated in 2012 when the borrowing limit was increased significantly to fund the acquisition of the regional distribution networks.

Each year Energinet presents an investment and finance plan to the Ministry of Climate, Energy, and Building for the coming four years, after which the ministry sets a borrowing limit based on the approved plan. Energinet can request and receive the funds from the national bank, which acts as an agent in issuing government bonds, within three business days.

Energinet has a policy of not holding cash on its balance sheet. Instead, it uses a commercial paper program of Swedish krona 5 billion (about DKK4.5 billion or €600 million) to meet its short-term financing needs.

Principal Liquidity Sources	Principal Liquidity Uses
<ul style="list-style-type: none"> • Access to government loans via the Danish National Bank, with current limits of DKK2.5 billion for 2014. • FFO in 2014 of around DKK1.5 billion. 	<ul style="list-style-type: none"> • Commercial paper of about DKK2.0 billion maturing in the next 12 months. • Capital expenditures of about DKK3.3 billion in 2014.

Other Modifiers

We apply an upward adjustment of one notch to reflect the "positive" outcome of our comparable rating analysis. This is primarily based on the large share of government loans in Energinet's capital structure and the ongoing support from the government through government loans and the absence of shareholder distributions. From an analytical standpoint, we treat the government loans as debt. We recognize, however, that these loans have a significantly lower refinancing risk than external debt. This is an important factor that we take into account when assessing Energinet's SACP.

Government Influence

According to our criteria for rating government-related entities (GREs), the long-term rating on Energinet is three notches higher than the SACP to reflect our view of a "very high" likelihood that the Danish government would provide timely and sufficient extraordinary support to the company in the event of financial distress.

This is based on our assessment of Energinet's:

- "Very important" role as Denmark's monopoly TSO, including its clear public policy role in meeting the country's power and gas requirements and environmental targets.
- "Very strong" link with the Danish government, demonstrated by the company's full government ownership and remote privatization prospects and evidenced by the Act on Energinet, which stipulates that the overall electricity and gas infrastructure for which Energinet is responsible shall remain public property.

Ratings Score Snapshot

Corporate Credit Rating

AA/Stable/A-1+

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:** Exceptional (no impact)
- **Financial policy:** Neutral (no impact)
- **Management and governance:** Satisfactory (no impact)
- **Comparable rating analysis:** Positive (+1 notch)

Stand-alone credit profile : a

- **Related government rating:** AAA
- **Likelihood of government support:** Very high (+3 notches from SACP)

Related Criteria And Research

Related Criteria

- Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- Corporate Methodology, Nov. 19, 2013
- Methodology: Industry Risk, Nov. 19, 2013
- Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Jan. 2, 2014
- Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Methodology For Linking Short-Term And Long-Term Ratings For Corporate, Insurance, And Sovereign Issuers, May 7, 2013
- 2008 Corporate Criteria: Commercial Paper, Apr. 15, 2008
- Rating Government-Related Entities: Methodology And Assumptions, Dec. 9, 2010
- Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010

Related Research

- Country Risk Assessments Update: February, Feb. 11, 2014
- Standard & Poor's Assigns Industry Risk Assessments To 38 Nonfinancial Corporate Industries, Nov. 20, 2013

Business And Financial Risk Matrix						
Business Risk Profile	Financial 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-

Additional Contact:

Infrastructure Finance Ratings Europe; InfrastructureEurope@standardandpoors.com

Copyright © 2014 Standard & Poor's Financial Services LLC, a part of McGraw Hill Financial. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED, OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses, and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw, or suspend such acknowledgement at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal, or suspension of an acknowledgement as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription) and www.spcapitaliq.com (subscription) and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.