STANDARD & POOR'S RATINGS SERVICES
McGRAW HILL FINANCIAL

RatingsDirect®

Summary:
Energinet.dk SOV

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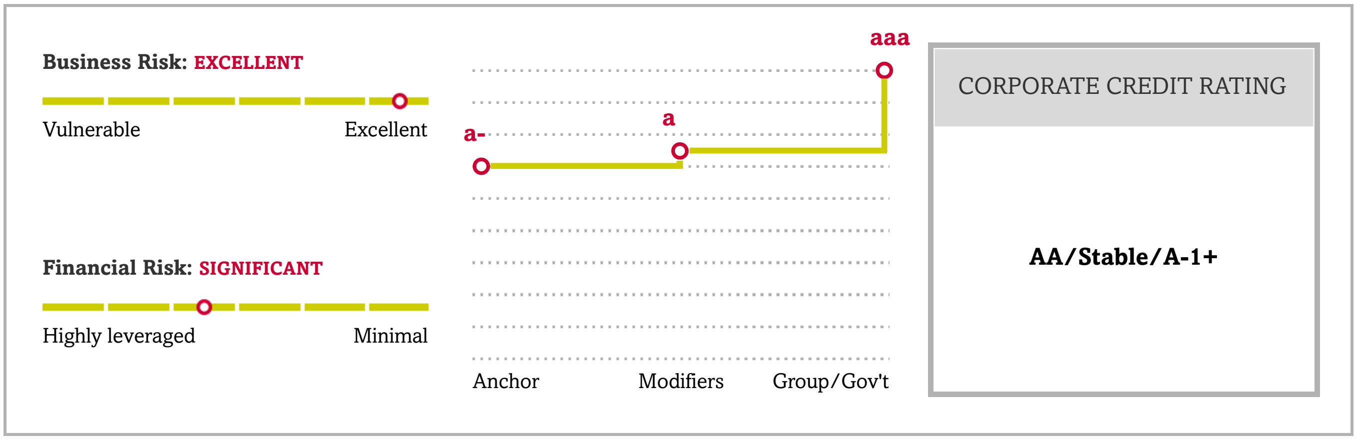

Rationale

Business Risk: Excellent	Financial Risk: Significant
• 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.	• 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

- 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.

Key Metrics

	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
• 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.	• 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-

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