STANDARD & POOR'S RATINGS SERVICES
McGRAW HILL FINANCIAL

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Summary:
Vier Gas Transport GmbH (Open Grid Europe Group)

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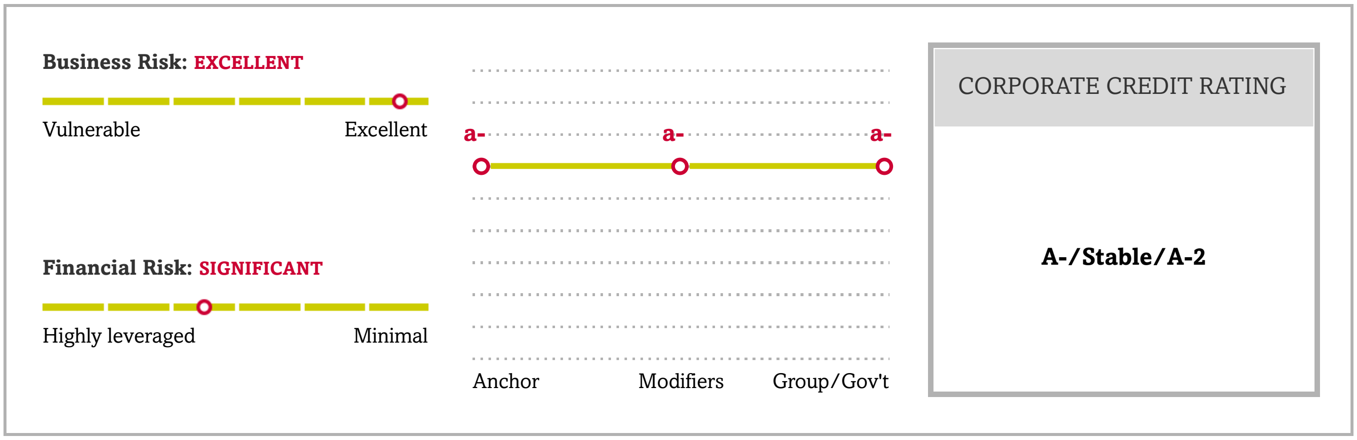

Rationale

Business Risk: Excellent	Financial Risk: Significant
• Largest gas transmission network and operator in Germany with a natural monopoly position in its service area. • A very low risk, regulated earnings profile. • Generation of all earnings in Germany, a very low risk country.	• Stable and predictable cash flow generation over the regulatory period. • Relatively high leverage and some cash flow volatility triggered by volume risk. • Long-dated debt, no material maturities until 2020, and strong liquidity.

Outlook: Stable

The stable outlook on Germany-based Open Grid Europe Group (OGE), which comprises holding company Vier Gas Transport GmbH and its subsidiary Open Grid Europe GmbH, reflects Standard & Poor's Ratings Services' expectation that OGE will maintain sound operating and financial performance over the next two to three years, thanks to OGE's very low risk, regulated earnings profile.

According to our base case, we expect that OGE will maintain funds from operations (FFO) to debt of at least 12% on an equally weighted average basis, in line with our low volatility benchmark for a significant financial risk profile.

Downside scenario

We could lower the rating if we anticipated a sustained decline in consolidated FFO to debt to less than 12%. This could occur if OGE were unable to control costs due to poor operating performance; faced unforeseen expenses that could not be passed on to customers; or if its efficiency factor, as assessed by the Federal Network Agency, were lower than we currently expect.

We could also lower the rating if OGE's business risk profile deteriorated to below the current excellent. This could be triggered by a substantial negative change in the regulatory framework or a shift in the business mix toward what we regard as riskier industries and countries. However, we view this as very unlikely at the moment.

Upside scenario

A positive rating action could result from a sustained improvement in credit metrics, such that the adjusted weighted-average FFO-to-debt ratio reached at least 15% and the financial risk profile improved to intermediate. Such a development could result from lower dividend payments, leading to a reduction of adjusted debt. We do not see upside rating potential stemming from the business risk profile, given that we already regard it as excellent.

Standard & Poor's Base-Case Scenario

Assumptions

- An efficiency factor of 100% for the regulatory period through to year-end 2017.
- A positive contribution from efficiency measures.
- Capital expenditure (capex) in line with OGE's revised network development plan of €150 million-€350 million per year until 2017, gradually increasing over time.
- The negative impact from the regulatory account mechanism in 2015 offsetting higher revenues in 2013.

Key Metrics

	2013a	2014a	2015f	2016f	2017f
FFO/Debt (%)*	17.3	17.3	About 11	>13	>12
Capex (mil. €)*	194	173	150-180	210-240	320-350
Debt/EBITDA (x)*	4.9	4.4	6-7	5-5.5	5-5.5

*Fully Standard & Poor's adjusted. Capex--Capital expenditure. a--Actual. f--Forecast.

Business Risk: Excellent

Our assessment of OGE's business risk profile reflects the company's natural monopoly position in its service area and, in our view, very low risk regulated gas transmission activities and a strong regulatory framework. In our opinion, regulated operations generally present low operation risk and predictable revenue streams. Moreover, we regard country risk as very low for companies operating in Germany.

Additionally, our assessment is underpinned by our view of OGE's strong competitive position. The group has a monopolistic market position in its service area and operates in an incentive-based regulation framework with a revenue cap, which allows relatively stable and predictable revenues and EBITDA over the five-year regulatory period. The current regulatory framework was introduced in 2010 and, in our view, increasingly supports operators' credit profiles. We view the regulatory advantage as strong for Germany's regulated gas transmission operators. OGE is exposed to volume risk, but if its revenues fall short of, or exceed, the revenue cap, the deficit or surplus is offset by the regulatory account mechanism, either with a two-year time lag when the difference exceeds 5% of allowed revenues or in the next regulatory period if the difference is below 5%. Nevertheless, in our view, profitability can be more volatile than peers' over the short term.

Financial Risk: Significant

OGE generates low-risk, stable, and predictable cash flows over the regulatory period, and has relatively high debt, so we regard its financial risk profile as significant. In line with OGE's revised network development plan, we expect a gradual increase of capex from 2016 onward. That said, in our base case we forecast only a moderate increase of leverage (debt to EBITDA) until 2017 compared with the past two years, and adjusted FFO to debt of more than 12% on a weighted basis for the 2013-2017 regulatory period.

In our ratio calculation, we apply the same risk weights to the figures in each of the five years to capture volatility during the regulatory period, for example, due to the regulatory account mechanism. We use the low volatility table in our corporate methodology to assess OGE's financial risk profile because the majority of OGE's EBITDA stems from regulated activities, which we consider to have a strong regulatory advantage.

Liquidity: Strong

We assess OGE's consolidated liquidity position as strong, supported by our view that its liquidity resources will exceed its funding needs by well over 1.5x in the next 12 months and by more than 1.0x in the following 12 months. OGE's liquidity profile is further supported by its well-established relationships with its core banks and generally high standing in the credit markets.

Principal Liquidity Sources	Principal Liquidity Uses
• Reported access to unrestricted cash and short-term marketable securities of about €225 million as of Sept. 30, 2015. • Positive cash flow of about €290 million annually in the next 24 months. • Access to revolving credit facilities totaling about €235 million, of which €15 million mature in June 2016, about €19 million in July 2017, and €200 million at year-end 2018.	• Debt maturities in the next 12 months of about €35 million, and about €40 million in the following 12 months. • Capex of about €200 million in the next 12 months and €300 million in the following 12 months. • Cash dividends that we estimate at up to €110 million annually over the next two years.

Ratings Score Snapshot

Corporate Credit Rating

A-/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)
- **Financial policy:** Neutral (no impact)
- **Liquidity:** Strong (no impact)
- **Management and governance:** Satisfactory (no impact)
- **Comparable rating analysis:** Neutral (no impact)

Related Criteria And Research

Related Criteria

- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- 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
- Group Rating Methodology, Nov. 19, 2013
- Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Methodology For Linking Short-Term And Long-Term Ratings For Corporate, Insurance, And Sovereign Issuers, May 7, 2013
- Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010
- Use Of CreditWatch And Outlooks, Sept. 14, 2009
- 2008 Corporate Criteria: Rating Each Issue, April 15, 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-

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