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Solvency II Could be A Double-Edged Sword For Infrastructure Investment

S&P Credit Analyst Miroslav Petkov explores whether Solvency II is acting as a stimulating or a limiting factor on the insurance sector's appetite for infrastructure investment.

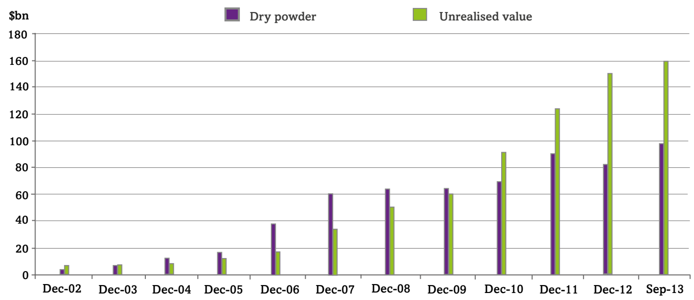
Insurers have been increasing their investment in infrastructure recently despite the sector publicly expressing its general dissatisfaction with the level of capital requirements required for infrastructure investments under the new European prudential regulation commonly known as Solvency II. Many insurers state that these requirements will limit the industry's ability to invest in the asset class and, consequently, may impede economic recovery in Europe.

However, new research by Standard & Poor's Ratings Services and Judge Business School, Cambridge University, reveals that the new regulation may not prove as negative as it may first appear. In fact, rather than hinder further infrastructure investment, Solvency II may boost this asset class.

Judge Business School at Cambridge University carried out research for Standard & Poor's Ratings Services during March to April 2014. The method included an extensive review of public literature, modelling data on infrastructure project default and recovery rates and in-depth interviews with a small sample of market participants.

The chart provides a 12-year evolution of infrastructure fund manager assets under management (AUM) and gives an indication of the insurance sector's commitment levels since the capital raised by fund managers is sourced from institutional investors such as insurers. It shows the amount of capital held by fund managers in the form of unrealized value in infrastructure assets as well as "dry powder" which is capital committed to unlisted funds that has not yet been called up by fund managers.

Unlisted Infrastructure Assets Under Management, December 2002 - September 2013



Data cover period from December 2002 to September 2013. Source: Preqin Ltd
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How Much Does The Calibration Of The Standard Formula Matter?

S&P recognizes that the current calibration of the standard formula may overstate the capital requirements for infrastructure investments because it's not based on actual performance. This is because the European Insurance and Occupational Pensions Authority (EIOPA), considers that the available data is insufficient to warrant tailored calibration for this asset class. From past experience, S&P finds the performance of infrastructure assets is generally superior to other asset classes such as corporates.

Notwithstanding the standard formula calibration, S&P believes the effects of Solvency II on infrastructure investments may not only be negative. Indeed, S&P considers it to be more favorable than Solvency I for those insurers with regulatory-approved internal models. This is because those insurers should be able to invest in this asset class in accordance with their risk-return profile. Currently, under Solvency I, there are no asset capital requirements; instead, there are asset admissibility limits.

Under Solvency II, the ability of insurers to use their internal view may be limited by the extent to which regulators approve models whose calibration differs materially from the standard formula. At present, there is uncertainty around this.

S&P anticipates that the calibration under Solvency II may limit the attractiveness of infrastructure for those insurers who plan to use the standard formula, and hence may limit the number of insurers investing in the asset class.

However, S&P believes this impact will be constrained by the fact that large European insurers who are likely to get their internal models approved will make most of the investments.

A Long-Duration Alternative

An important driver for considering infrastructure investments could be the insurers' desire for improving assets and liabilities matching in order to reduce capital requirements under Solvency II. Such investments provide them with longer durations to improve their matching of assets to liabilities, while delivering more attractive yields than government bonds that dominate their long-duration investments.

A Positive Development

S&P considers Solvency II to be positive for insurers' creditworthiness because it increases the requirements surrounding insurers' risk management capabilities. These requirements should prevent insurers clamoring to invest in infrastructure before they have the necessary expertise and systems to analyze the effects of the risks associated with these investments.

While not all elements of Solvency II are favorable for infrastructure investments, S&P believes the new regulations could still prove to be more positive for those assets than under Solvency I. The introduction of the Solvency II framework in January 2016 should stabilize the regulatory environment and enable insurers to better assess the suitability of this burgeoning asset class.

Further information is available on the Global Credit Portal in the research piece entitled: "Solvency II Could be A Double-Edged Sword For Infrastructure Investment"

Infrastructure Happenings

Wednesday 9th July 2014
Earth Overshoot Day 2015, Brussels
Michael Wilkins speaking
www.european-parliament.globeinternational.org

Tuesday 2nd September 2014
Infrastructure Finance & Investment - Next Steps For Government Strategy, London
Michael Wilkins speaking
www.westminsterforumprojects.co.uk

Thursday 4th September 2014
Infrastructure Investment Briefing, London
Michael Wilkins speaking
www.terrapinnbriefings.com

Please contact Sonia Bassi at sonia.bassi@standardandpoors.com for information on all S&P events

DELEK & AVNER (TAMAR BOND) LTD

Delek & Avner (Tamar Bond) Notes Assigned Final 'BBB-' Issue Ratings; Outlook Stable

$2,000 million limited recourse notes to refinance facilities used in production of key Tamar gas field off the coast of Israel

Israel-based Delek & Avner (Tamar Bond) Ltd. has issued $2,000 million of limited-recourse secured notes, in five separate and equally sized tranches, each with bullet repayment, maturing Dec. 31 in 2016, 2018, 2020, 2023, and 2025, respectively. The proceeds were used to refinance existing facilities that partially funded the construction of the production facilities for the Tamar gas field as well as for other corporate purposes.

Standard & Poor's Ratings Services is assigning 'BBB-' long-term issue ratings to the notes. The outlook on the ratings is stable, reflecting S&P's view that no major operational issues will arise, as well as S&P's outlook on Israel Electric.

The Tamar gas field off the coast of Israel is currently the main supplier of natural gas to the State of Israel and particularly the vertically integrated monopoly electricity company, Israel Electric Corp. Ltd. (BB+/Stable/--).

S&P Credit Analyst Robin M Burnett says: "The 'BBB-' ratings on the notes are constrained by S&P's view of the highly leveraged financial structure of the transaction and the counterparty dependency assessment (CDA) assigned to Israel Electric Corp. Ltd. (IEC, BB+/Stable/--)."

The CDA on IEC is 'bbb-', as S&P considers it to be an essential regulated service, and therefore, that it would likely continue to produce or purchase, and, in turn, supply power even in bankruptcy. Although not the only offtaker, IEC is by far the main one, and in 2013 provided about 66% of the field's revenues. In S&P's opinion, IEC is the likely candidate to take any surplus gas the field may have to offer. It should be noted, however, that the field production is currently oversubscribed, so the possibility of excess gas is low at this point.

S&P could lower the rating if major operational problems arise at Tamar, such as a serious, prolonged decline in availability or another event leading to substantial unscheduled maintenance.

"The 'BBB-' ratings on the notes are constrained by S&P's view of the highly leveraged financial structure of the transaction and the counterparty dependency assessment"

Further information is available on the Global Credit Portal in the research piece entitled: "Delek & Avner (Tamar Bond) Notes Assigned Final 'BBB-' Issue Ratings; Outlook Stable"

WATERCRAFT CAPITAL

Luxembourg-Based Watercraft Capital 'BBB' Issue Rating Placed On CreditWatch Negative On Concession Relinquishment

Consultation by Escal UGS (ProjectCo) to obtain approval for the relinquishment of its gas storage concession raises questions over compensation mechanism

Standard & Poor's has placed its 'BBB' long-term issue rating on the €1.4 billion senior secured fixed-rate bonds due December 2034, issued by Luxembourg-based special purpose vehicle Watercraft Capital S.A. (the issuer), on CreditWatch with negative implications. This reflects the increasing chance that S&P could lower the rating by two notches if it concludes that the project's reliance on majority shareholder ACS to support senior debt service increases materially.

ACS recently announced that ESCAL had decided to start the concession relinquishment process for the gas storage concession held by Escal UGS (ProjectCo), of which it is majority shareholder. The process is first subject to approval from the EIB, as the liquidity facility provider, and eventually bondholders.

S&P Credit Analyst Manuel Dusina says: "Should the relinquishment process be successful, we understand that the project is entitled to compensation from the state, which can be implemented through payments from the gas system. In such case, the state may have to increase the tariff for final users. However, this type of compensation mechanism is untested. Hence, we are concerned with the future timeliness of such payments to ProjectCo."

S&P believes bondholders could rely on ACS to meet the debt repayment on a timely manner if the facility is not in operation or included within the gas system by the long-stop date (Nov. 30, 2014). Since the halt imposed by the Spanish government on Sept. 27, 2013, authorization to restart operations has not been granted.

Positively, the outcome of the technical and financial audit of the project conducted by the authorities confirmed that the project's investment cost of €1.46 billion is reasonable. The 'BBB' issue rating on the senior secured debt continues to reflect, among other things, the project's high revenue stability and predictability if included in the gas system, the strategic importance of the asset – officially recognized as an "essential and urgent infrastructure" asset by the Spanish government – and low revenue counterparty risk.

These strengths are, however, offset by the uncertain regulatory environment due to the continuing fiscal and economic risks in Spain, the risk of potential revenue arrears derived from the potential for a gas tariff deficit in Spain, and a highly leveraged financial profile.

"Should the relinquishment process be successful, we understand that the project is entitled to compensation from the state, which can be implemented through payments from the gas system"

Further information is available on the Global Credit Portal in the research piece entitled: "Luxembourg-Based Watercraft Capital 'BBB' Issue Rating Placed On CreditWatch Negative On Concession Relinquishment"

WIND POWER PROJECT ALTE LIEBE 1 LTD

Wind Power Project Alte Liebe 1 EUR102 Mil. Notes Outlook Revised To Negative; 'CCC+' Rating Affirmed

Low wind levels have had a negative impact on the performance of Alte Liebe's WFCs and has blown off course the project's liquidity position

The continuing weak operating performance of the wind farms that ultimately service the debt of Jersey-based special-purpose vehicle Alte Liebe 1 Ltd. has resulted in a further deterioration in the project's liquidity position.

Standard & Poor's Ratings Services understands that Gerdau Pülfringen, one of Alte Liebe's six Germany-based wind farm companies, has now fully depleted its debt service reserve account.

In S&P's view, the likelihood that Alte Liebe could start deferring payment of principal on its €102 million senior secured amortizing notes over the next two-to-three years is increasing.

As a result, S&P is revising the outlook on its issue rating on the notes to negative from stable, and affirming the issue rating at 'CCC+'.

"The likelihood that Alte Liebe could start deferring payment over the next two-to-three years is increasing"

S&P Credit Analyst Maria Lemos says: "The negative outlook reflects the possibility of a downgrade of one or more notches if Alte Liebe started deferring principal repayments on the notes, as the terms of the notes permit, and if S&P believed that the deferrals were on a permanent basis or for more than 12 months."

The notes have an unconditional and irrevocable guarantee of payment of scheduled interest and ultimate principal from controlling creditor Ambac Assurance U.K. Ltd. Under S&P's criteria, a rating on monoline-insured debt reflects the higher of the rating on the monoline or S&P's underlying rating (SPUR). Since S&P does not rate Ambac Assurance, the long-term debt rating on the notes reflects the SPUR.

The outlook revision reflects continued weak operating performance at Gerdau Pülfringen, one of Alte Liebe's six Germany-based wind farm companies (WFCs), and the resulting further deterioration in the project's liquidity position.

On Dec. 31, 2013, Gerdau-Pülfringen's debt service coverage ratio (DSCR) was 0.60x, and it had fully utilized its debt service reserve account (DSRA) to meet the December 2013 debt service payment on the loan from Alte Liebe.

Further information is available on the Global Credit Portal in the research piece entitled: "Wind Power Project Alte Liebe 1 EUR102 Mil. Notes Outlook Revised To Negative; 'CCC+' Rating Affirmed"

ISRAEL ELECTRIC CORP.

Israel Electric Corp. Upgraded To 'BBB-' On Strengthened Liquidity And Improving Metrics; Outlook Stable

Recovery from fuel crisis and a deleveraging strategy has prompted an upgrade although sector reform looms

Standard & Poor's Ratings Services believes that Israel Electric Corp.'s (IEC's) liquidity is now adequate thanks to more conservative liquidity management and a stabilization of fuel costs.

The upgrade reflects the opinion that IEC's financial position has stabilized following the 2011-2013 fuel crisis. S&P Credit Analyst Mark J Davidson, says: "In addition, S&P believes that credit metrics are sustainably improving due to tariff increases and a deleveraging strategy, and S&P has consequently revised its stand-alone credit profile assessment to 'b+' from 'b'.

S&P is therefore raising its long-term corporate credit rating on IEC to 'BBB-' from 'BB+'. The stable outlook reflects the opinion that IEC will sustain a Standard & Poor's-adjusted funds from operations-to-debt ratio of at least 9%, and that liquidity will not materially weaken.

The adoption of more conservative liquidity management includes the maintenance of a new Israeli shekel (NIS) 3 billion liquidity buffer at all times – which might include up to NIS800 million of fuel inventory. S&P further understands that the company will soon sign about NIS1 billion of committed facilities with banks.

Furthermore, S&P believes that credit metrics will meaningfully improve from 2014, as tariffs aimed at recovering increased fuel costs take effect and IEC implements its deleveraging strategy, which will be funded by cost reductions and a moderation in capital expenditure (capex). An early implementation of the sector reform as recommended by the government's Yo'gev Committee is not factored into the base-case scenario.

The government-led Yo'gev committee – recently established to investigate reforms in the Israeli electricity sector – has made a number of recommendations that could materially affect IEC's position in the market. The recommendations include separating system management from the company, and introducing material competition in the generation and supply markets with private generation accounting for at least 42% of the total within a decade.

Further information is available on the Global Credit Portal in the research piece entitled: "Israel Electric Corp. Upgraded To 'BBB-' On Strengthened Liquidity And Improving Metrics; Outlook Stable"

"The adoption of more conservative liquidity management includes the maintenance of a new Israeli shekel (NIS) 3 billion liquidity buffer at all times"

U.K.-BASED ENERGY DISTRIBUTOR PPLWEM HOLDINGS

U.K.-Based Energy Distributor PPLWEM Holdings 'BBB' Ratings On CreditWatch Positive On U.S. Parent's Spin-Off Plan

Divestiture of PPL Energy Supply is likely to benefit PPL's business risk profile and could raise the ratings by up to two notches

On June 12, 2014, Standard & Poor's Ratings Services placed its 'BBB' long-term issuer credit ratings on U.K.-based electricity distribution holding company PPL WEM Holdings Ltd. and its operating subsidiaries Western Power Distribution (East Midlands) PLC and Western Power Distribution (West Midlands) PLC on CreditWatch with positive implications. At the same time, S&P affirmed the 'A-2' short-term ratings on the three entities.

On June 10, S&P placed its 'BBB' ratings on U.S.-based energy and utility holding company PPL Corp. on CreditWatch positive, after PPL announced its intention to spin off its unregulated power generation subsidiary PPL Energy Supply LLC.

S&P equalizes its ratings on PPL's core U.K.-based subsidiary PPL WEM Holdings Ltd., which operates two power distribution networks in the East and West Midlands, with the ratings on its parent.

S&P Credit Analyst Nazia Haider explains: "The CreditWatch placement will be resolved once PPL has completed the divestiture of PPL Energy Supply. If the transaction completes successfully, S&P could raise the ratings by up to two notches, depending on S&P's assessment of the consolidated PPL group's credit measures."

S&P considers that the divestiture of PPL Energy Supply is likely to benefit PPL's business risk profile, as it is considered that the unregulated operations to be materially riskier than those that are regulated.

The U.K. operations contribute a substantial proportion of the group's cash flows, and S&P considers them "core" to the group. The U.K. operating companies are subject to a regulatory ring fence, which could result in the lockup of funds if the ratings fall to 'BBB-'or lower. At the current rating level, S&P does not view them as insulated from PPL Corp. due to the intercompany liquidity facilities the parent provides to the U.K. group, and the relatively high cash flow dependency of the parent on the U.K. operations.

PPL WEM has an "excellent" business risk profile, supported by the stable and transparent regulatory environment in which the electricity distribution companies operate. This results in a "strong" regulatory advantage.

Further information is available on the Global Credit Portal in the research piece entitled: "U.K.-Based Energy Distributor PPLWEM Holdings 'BBB' Ratings On CreditWatch Positive On U.S. Parent's Spin-Off Plan"

"The U.K. operations contribute a substantial proportion of the group's cash flows, and S&P considers them "core" to the group."

TEOLLISUUDEN VOIMA

Finland-Based Nuclear Power Producer Teollisuuden Voima's Outlook To Negative On Risk Of Declining Cost Competitiveness

Difficult market conditions and higher production costs could reduce the economic attractiveness of TVO's business model to its owners

On May 23, 2014, Standard & Poor's Ratings Services revised to negative from stable its outlook on Finland-based nuclear power producer Teollisuuden Voima Oyj (TVO). At the same time, S&P affirmed its 'BBB/A-2' long- and short-term corporate credit ratings on TVO.

"S&P believes maintaining a cost advantage over market prices is critical to shareholders' long-term supportiveness of TVO."

Difficult market conditions continue to put pressure on Nordic electricity prices. Delays to the construction of a new nuclear power plant could increase production costs for Finland-based nuclear operator Teollisuuden Voima Oyj (TVO). The negative outlook reflects the risk that lower market prices and higher production costs could permanently reduce TVO's competitiveness, which could dilute the cost advantage it offers to its shareholders over time. The outlook revision reflects the risk that lower market prices and higher costs could permanently reduce TVO's competitiveness, which could dilute the cost advantage it offers to its shareholders over time. It sells the electricity it generates exclusively to its shareholders. S&P believes maintaining a cost advantage over market prices is critical to shareholders' long-term supportiveness of TVO.

S&P Credit Analyst Alf Stenqvist says: "S&P believes that TVO's cushion against any further decline in market prices or increased costs due to further cost overruns or delays of Olkiluoto 3 has shrunk significantly. If this situation persists over the longer term, it would weaken TVO's competitive position, and could reduce the economic attractiveness of TVO's business model to its owners."

TVO's "strong" business risk profile is underpinned by its protective business model, including a full cost-cover structure backed by long-term off-take agreements with the owners. According to the company's articles of association, the shareholders are severally liable for TVO's annual fixed costs (accounting for about 80%-85% of total costs), including interest expenses and debt installments.

Further information is available on the Global Credit Portal in the research piece entitled: "Finland-Based Nuclear Power Producer Teollisuuden Voima's Outlook To Negative On Risk Of Declining Cost Competitiveness"

IRISH AIRLINE SUBSIDIARY RYANAIR LTD.

Irish Airline Subsidiary Ryanair Ltd. Rated 'BBB+'; Outlook Stable; EUR3 Bil. Medium-Term Note Program Rated 'BBB+'

Industry-leading profitability and high operating efficiency are among the factors that suggest Ryanair should maintain its current competitive position over the next two years

"The 'BBB+' rating on Ryanair reflects the assessment of the company's business risk profile as "satisfactory" and its financial risk profile as 'minimal.'"

Ryanair Ltd. is a core subsidiary of Irish low-cost airline Ryanair Holdings PLC. Standard & Poor's Ratings Services is therefore assigning its 'BBB+' long-term corporate credit to Ryanair Ltd., the same level as the rating on Ryanair Holdings. It is also assigning its 'BBB+' issue rating to the €3 billion medium-term note program issued by Ryanair Ltd. and guaranteed by Ryanair Holdings PLC.

The stable outlook on Ryanair Ltd. reflects S&P's view that the group will be able to maintain both Standard & Poor's-adjusted funds from operations to debt well above 50% and its current competitive position over the next two years.

S&P equalizes the rating on Ryanair Ltd. with that on its parent to reflect its opinion that Ryanair Ltd. is a core subsidiary of Ryanair Holdings. S&P refers to Ryanair Ltd. and Ryanair Holdings together as Ryanair.

The 'BBB+' rating on Ryanair reflects the assessment of the company's business risk profile as "satisfactory" and its financial risk profile as "minimal."

The business risk profile assessment is based on S&P's view of Ryanair's:

- Industry-leading profitability, with return on capital averaging about 13% over the past six years.
- High operating efficiency, thanks to Ryanair's focus on costs. This allows Ryanair to operate a significantly lower cost per passenger and cost per available seat mile than its peers.
- Strong market position, with significant scale advantages in Ryanair's key airports.
- Supportive scale, scope, and diversity. Ryanair is present in most European markets and has a lower concentration of traffic in single airports than most of its peers.

S&P Credit Analyst Olli Rouhiainen says: "These positive factors are partly mitigated by Ryanair's lower exposure to higher-spending and less price-sensitive business travelers, leading to lower average revenue per passenger for Ryanair than for its peers. In addition, Ryanair has a lack of geographic diversification outside Europe due to its lack of long-haul flights and reputation for providing less customer-friendly services than some of its peers."

S&P believes that Ryanair will maintain a "minimal" financial risk profile over the next two years.

Further information is available on the Global Credit Portal in the research piece entitled: "Irish Airline Subsidiary Ryanair Ltd. Rated 'BBB+'; Outlook Stable; EUR3 Bil. Medium-Term Note Program Rated 'BBB+'"

SOLVEIG GAS NORWAY

Outlook On Solveig Gas Norway Senior Debt Revised To Stable On Approaching Refinancing; Ratings Affirmed Then Withdrawn

Solveig will no longer be exposed to risk as refinancing is set to go ahead in advance of 2019 maturity

Standard & Poor's Ratings Services understands that Solveig Gas Norway AS (Solveig), a partner in North Sea gas infrastructure project Gassled, is moving ahead with the rescheduling or refinancing of its outstanding senior secured loans ahead of their maturity in 2019.

Once the transaction is complete, S&P considers that Solveig will no longer be exposed to refinancing risk, and S&P is therefore revising the outlook on Solveig's bonds to stable from negative.

S&P Credit Analyst Manuel Dusina says: "S&P is affirming the 'BBB-' issue ratings, and then withdrawing them at the issuer's request. At the time of withdrawal, the stable outlook reflected S&P's view of the solid operational performance of the Gassled network."

On May 28, 2014, S&P revised to stable from negative the outlook on the bonds issued by Norway-based asset company Solveig, comprising Norwegian krone (NOK) 4.875 billion-equivalent senior secured fixed-rate bonds due December 2027, a NOK12 billion euro medium-term note program, and $650 million U.S. private placement notes of which the bonds are a part.

At the same time, S&P affirmed its long-term issue ratings on the senior secured debt at 'BBB-'. It subsequently withdrew the ratings at the issuer's request.

The outlook revision reflects the view that Solveig will no longer be exposed to refinancing risk, as S&P understands that the company is proceeding with the rescheduling or refinancing of its senior secured loans (constituting 50% of its senior debt) ahead of their maturity in early 2019. Although the terms of the rescheduling/refinancing have not been disclosed to S&P, it understands that they are not less favourable than currently reflected in the base-case assumptions.

Solveig used the proceeds of the bonds to refinance the debt facilities that it used to partially fund the acquisition (direct and indirect) of a 24.1% stake in the Gassled gas pipeline network from Norway-based oil and gas producer Statoil ASA. Solveig subsequently acquired the 1.28% stake in Gassled indirectly owned by Italian oil and gas major Eni SpA.

"Solveig used the proceeds of the bonds to refinance the debt facilities that it used to partially fund the acquisition… of a 24.1% stake in the Gassled gas pipeline network"

Further information is available on the Global Credit Portal in the research piece entitled: "Outlook On Solveig Gas Norway Senior Debt Revised To Stable On Approaching Refinancing; Ratings Affirmed Then Withdrawn"

EXCHEQUER PARTNERSHIP

Exchequer Partnership Outlook Revised To Positive On Forecast Financial Risk Profile Improvement; SPUR Affirmed At 'A-'

Stable operational risk and improved financial risk is attributable to higher revenue than EP2 had expected at financial close

Standard & Poor's Ratings Services is forecasting a significant improvement in the financial profile of the U.K.-based private finance initiative project Exchequer Partnership (No.2) PLC (EP2 or ProjectCo) from 2015 onward. It is forecast that EP2's annual debt service coverage ratio (ADSCR) will increase to above 1.36x, remaining high until the end of the concession, and that the project will continue delivering stable operations, as it has done since 2004.

On May 28, 2014, Standard & Poor's Ratings Services revised the outlook on Standard & Poor's underlying rating (SPUR) on the £166 million 5.396% fixed-rate senior secured bonds due 2036, issued by U.K.-based special-purpose vehicle Exchequer Partnership (No.2) PLC, to positive from stable.

"It is forecast that EP2's annual debt service coverage ratio (ADSCR) will increase to above 1.36x"

At the same time, S&P affirmed the SPUR at 'A-' and the long-term insured issue rating on the bonds at 'AA'. The issue rating reflects the 'AA' rating on Assured Guaranty (Europe) Ltd. (AGE), which provides the unconditional and irrevocable guarantee of payment of scheduled interest and principal on the bonds.

S&P Credit Analyst Robin M Burnett says: "The positive outlook reflects the expectations of an improved financial risk profile and continued stable operational performance."

The forecast ADSCR improvement is attributable to higher revenue than EP2 had expected at financial close. In turn, this was thanks to operational variations, in particular additional workstations; lower-than-originally-forecast overhead costs, especially insurance; as well as the benefits of lower corporate taxes and a higher retail prices index (RPI) than the project assumed at financial close. The lower insurance costs are in line with the trends S&P has observed in the market for the past five to seven years, while the reduction in the U.K. corporate tax rates to 20% in 2015 from 23% in 2013 is in line with the U.K. Government's guidance. Moreover, the project will benefit from relief on tax losses until 2019.

Further information is available on the Global Credit Portal in the research piece entitled: "Exchequer Partnership Outlook Revised To Positive On Forecast Financial Risk Profile Improvement; SPUR Affirmed At 'A-'"

STANDARD & POOR'S PERSPECTIVE ON GAZPROM'S GAS CONTRACT WITH CNPC AND ITS IMPLICATIONS FOR RUSSIA AND CHINA

Standard & Poor's Credit Analyst Elena Anankina addresses investor questions on the effects of the Chinese gas contract on Gazprom's and CNPC's creditworthiness, the likely effect of the transaction on the Russian economy, and the wider implications of the deal for the European gas market.

On May 21, 2014, following a decade of negotiations, Russia-based vertically integrated gas company Gazprom OAO and the largest Chinese government-owned integrated oil and gas company China National Petroleum Corp. (CNPC) signed an agreement to export Russian natural gas to China. Under this contract Gazprom will supply up to 38 billion cubic meters (bcm) of gas per year for 30 years, using a new pipeline – the Power of Siberia – that the company plans to build between its east Siberian gas fields (Chayanda and Kovykta) and north-east China. Gazprom estimates its investments in the project at about $55 billion over four to six years, and CNPC expects to invest about $20 billion over the same period.

Will this agreement derail the demand/supply balance for gas in Europe, and is China going to become the core export market for Russia anytime soon?

No, on both counts. The European gas market remains critically important for Russia, at least for the next several years. S&P believes the new agreement will have no immediate impact on the European market for piped gas, for the following reasons:

1. Exports to China will not reduce the volume of gas available for export to Europe.
2. The gas market, unlike oil, is essentially regional, not global.
3. Gazprom's exports to Europe are under long-term contracts.
4. The European market will remain the key source of profits for Gazprom.

In the longer term, however, export diversification could strengthen Gazprom's bargaining power vis-à-vis European customers. In recent years, European customers have pressured Gazprom to lower its contract prices, and in some cases the company has had to make retroactive payments.

What are the implications of the China contract for the Russian economy?

The current geopolitical environment suggests that some European economies have an increased appetite to diversify away from gas supplied by Russia. In this context, signing the contract with China could be seen as an additional effort by Russia to pre-empt such events by diversifying its export markets outside of Europe.

Assuming that Gazprom's projected $55 billion investment were spread over 2014-2019, it would amount to an average 0.4% of GDP per year in additional investment. This in and of itself would unlikely be sufficient to change S&P's view on the Russian economy. However, the investment will provide modest support to economic growth and will likely result in a higher level of gas exports and related government revenues over the medium term.

"The current geopolitical environment suggests that some European economies have an increased appetite to diversify away from gas supplied by Russia. In this context, signing the contract with China could be seen as an additional effort by Russia to pre-empt such events"

Is the contract with China positive or negative for Gazprom's credit quality?

The China contract is broadly neutral for Gazprom's credit quality. S&P believes that Gazprom's stand-alone credit profile is sufficiently robust at 'bbb-', despite the higher capital expenditure (capex) triggered by the transaction with China.

Gazprom's contract with China is important for the company's long-term future. It will help diversify Gazprom's exports markets, enable the company to monetize stranded gas reserves in eastern Russia, and obtain offtake commitments before making large investments in a very costly project. In addition, the contract will secure Gazprom's position in China's rapidly developing and increasingly competitive fuel market, where it will compete with local coal producers, other pipeline gas suppliers from Central Asia and Myanmar, LNG supplies from other regions, and potential shale gas production in China itself.

Does Standard & Poor's see risks of a further increase in Gazprom's massive investment program?

That cannot be ruled out for large projects, and Gazprom's Eastern program is no exception. Also, if Gazprom starts negotiating another gas contract to China using the western route (that is, across the Altai Mountains), it may further increase its capex commitments.

Is the China contract value-accretive or value-destructing for Gazprom?

In S&P's credit analysis of Gazprom, the crucial element is the effect of the China transaction on the risks for Gazprom's creditors rather than the project's net present value. It is noted that the project's value for the company depends on a number of factors that are as yet unknown or not yet public.

What is the main factor affecting Gazprom's credit quality?

The main factor influencing S&P's rating on Gazprom is the sovereign credit rating on Russia rather than Gazprom's stand-alone financials. At present, the sovereign rating constrains S&P's foreign currency rating on Gazprom. S&P views Gazprom as a government-related entity with a critical role for the Russian economy and very strong links to the government.

What are the implications of the Gazprom transaction for China's evolving energy structure?

The Gazprom contract is positive for China's evolving energy structure. Demand for gas is strong due to the country's continued economic growth, accelerated urbanization, and still-low natural gas penetration. Greater use of gas also fits in with China's environment protection measures: The Chinese government supports using more natural gas to reach its carbon emissions target and reduce the serious air pollution, particularly in northern China.

Will the transaction expose China to the risk of over-reliance on gas supplies from Russia?

The transaction with Russia is sizable but unlikely to expose China to the risk of over-reliance on Russia for gas supply. Energy security and diversified energy sources have long headed the strategic considerations of Chinese policymakers. Now the country will have four main sources of import: North-west piped gas from Central Asia, mainly Turkmenistan (up to 30 bcm capacity per year, potentially increasing); the south-west pipelines from Myanmar (up to 12 bcm); north-east piped gas from Russia (with capacity up to 38 bcm); and LNG shipments from the Middle East, Australia, Malaysia, Indonesia, and others. By 2020, it is estimated that Russian gas is likely to account for about 30% of total imported gas to China.

What would the increase in gas imports imply for the looming natural gas price reform in China?

It should prompt Chinese policymakers to maintain the scheduled natural gas price reform of becoming more market-driven by the end of 2015. In recent years, domestic gas price regulation in China has centered on affordability, resulting in a gap between domestic and international gas prices and fuelling further demand.

Is the import of natural gas from Russia positive or negative for CNPC's credit quality?

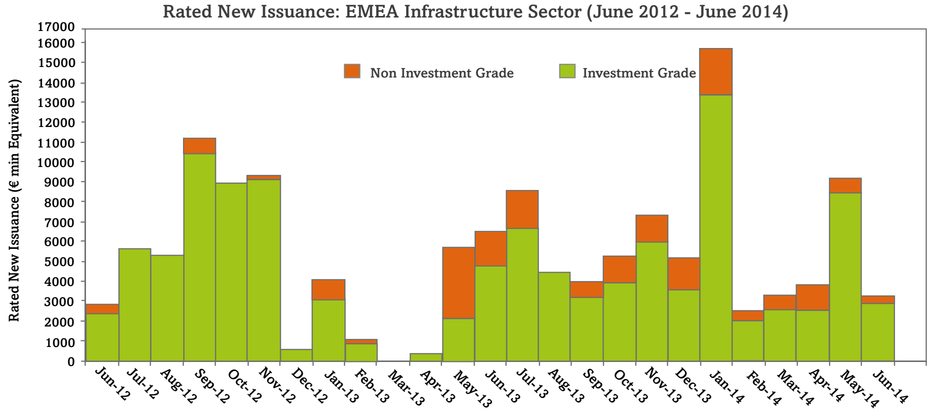
The transaction as neutral to positive for CNPC's credit quality, provided the price of natural gas in China is primarily market-driven. The beneficial effect will depend on the actual terms of the contract with Gazprom (yet to be disclosed), the level of any government support for CNPC, and the terms under which CNPC can directly distribute gas to large end-users (with a higher margin). In addition, S&P understands that there is a large prepayment to Gazprom of about $25 billion. This is likely to be financed by the Chinese policy banks.

Further information is available on the Global Credit Portal in the research piece entitled: "Standard & Poor's Perspective On Gazprom's Gas Contract With CNPC And Its Implications For Russia And China"

UTILITY MARKET WATCHBOX

UTILITIES RATINGS

Rated New Issuance: EMEA Infrastructure Sector (June 2012 - June 2014)



STANDARD & POOR'S IFR RATINGS WATCHBOX

Companies or projects	New Rating/Outlook	Old Rating/Outlook	Rationale for change
Utilities credits			
April-14			
Federal Grid Co. of the Unified Energy System	BBB-/Negative/--	BBB/Negative/--	Ratings lowered on sovereign downgrade
May-14			
Mosvodokanal JSC	BBB-/Negative/A-3	BBB-/Stable/A-3	Outlook Revised To Negative After Downgrade Of Moscow
Vodokanal St. Petersburg	BB+/Negative/B	BB+/Stable/B	Outlook Revised To Negative After Downgrade Of Russia
Moscow Integrated Power Co.	BB-/Stable/B	BB-/Negative/B	Outlook Revised To Stable On Parental Support
Georgian Oil and Gas Corporation JSC	B/Positive/B	B/Stable/B	Outlook Revised To Positive On Strengthening Financial Performance
DONG Energy A/S	BBB+/Stable/A-2	BBB+/Negative/A-2	Outlook To Stable On Improved Operational And Financial Performance
Centrica PLC	A-/WatchNegative/A-2	A-/Stable/A-2	Rating Placed On CreditWatch Negative On Challenging Market Outlook
Teollisuuden Voima Oyj	BBB/Negative/A-2	BBB/Stable/A-2	Outlook To Negative On Risk Of Declining Cost Competitiveness
Project Finance & Transportation credits			
April-14			
Solutions 4 North Tyneside (Finance) PLC	BBB-/Stable		Rating assigned (Final)
Amey Lagan Roads	BB/Stable	BB/Watch Positive	ProjectCo will be undergoing financial restruturing which will result in improved forecast DSCRs
Avincis Mission Critical Services Holdings, S.L.U.	B/Watch Pos/--	B/Stable/--	On announcement of acquisition By Babcock International Group
VINCI S.A.	A-/Stable/--	BBB+/Stable/--	On Reassessment Of Resilience Of Transportation Infrastructure Businesses
CEVA Group PLC	B-/Stable/--	CCC+/Watch Pos/--	On Completed Refinancing
Russian Railways JSC	BBB/Negative/--	BBB/Stable/--	Outlook revised following sovereign outlook revision
OJSC Federal Passenger Company	BBB/Negative/--	BBB/Stable/--	On similar action on the parent company, Russian Railways JSC
Aspire Defence Finance PLC	A-/Stable	BBB+/Positive	On Sustained Strong Operational Performance And Financial Profile
Delek & Avner (Tamar Bond) Ltd.	(Prelim) BBB-/Stable	-	New Rating
May-14			
Alte Liebe 1 Ltd.	CCC+/Negative	CCC+/Stable	"The outlook revision reflects continued weak operating performance of the wind farms resulting in further deterioration in the project's liquidity position."
Brunswick Rail Ltd.	B+/Stable/--	BB-/Stable/--	On Weakening Credit Metrics
Atlantia SpA	BBB+/Stable/A-2	BBB+/Negative/A-2	Outlook Revised To Stable On Resilient Financial Performance
Aeroporti di Roma SpA	BBB+/Stable/A-2	BBB+/Negative/A-2	Outlook Revised To Stable On Resilient Financial Performance
CMA CGM S.A.	B+/Stable/--	B/Positive/--	Rating Raised on Reassessment Of Financial Policy
Logwin AG	B+/Positive/--	B+/Stable/--	Outlook Revised To Positive On Forecast Of Stronger Credit Metrics
PostNL N.V.	BBB-/Stable/A-3	BBB-/Negative/A-3	Ourlook revised on Improving Credit Metrics
Far-Eastern Shipping Co. PLC	B+/Negative/--	BB-/Stable/--	On Weak 2013 Performance
Russian Railways JSC	BBB-/Negative/--	BBB/Negative/--	Ratings lowered on sovereign downgrade
OJSC Federal Passenger Company	BBB-/Negative/--	BBB/Negative/--	Ratings lowered on sovereign downgrade
Dublin Airport Authority PLC	BBB/Positive/A-2	BBB/Stable/A-2	Outlook revised on Strong Operating Performance

STANDARD & POOR'S UTILITY MARKET WATCHBOX

S&P LT FCR Rating	Borrower	Country	5yr CDS (bp)	1mth (△ bp)	3mth (△ bp)	2012-2014 High	Low	S&P Market Derived Signals*
A+/A-1/stable	EDF S.A.	France	55	-1	-5	168	52	a-
BBB+/A-2/stable	RWE A.G.	Germany	68	-5	-21	131	63	bbb+
A/A-1/Negative	GDF Suez S.A.	France	52	-2	-7	146	48	a-
BBB/A-2/Stable	ENEL SpA	Italy	87	10	-22	527	74	bbb
BB+/B/Stable	Energias de Portugal S.A.	Portugal	146	-3	-56	946	129	bb+
BBB/A-2/Stable	Iberdrola S.A.	Spain	77	1	-31	566	68	bbb
BBB-/A-3/Positive	United Utilities PLC	UK	99	-4	-22	183	73	bbb-
BBB+/A-2/Stable	Edison SpA	Italy	51	2	-4	168	47	a
NR	International Power	UK	52	-11	-13	125	45	a

Source: Standard & Poor's, Bloomberg, 26 May 2014

STANDARD & POOR'S INFRASTRUCTURE BOND ISSUE WATCHBOX

Issue Date	Issuer	Country	Issue Ratings (S&P)	Currency	Amount (m)	Maturity/Tenor	Coupon (%)
24-Apr-14	Gas Natural Fenosa Finance B.V.	Netherlands	BBB	Euro	200	08-May-23	2.625
24-Apr-14	NS Groep N.V.	Netherlands	A+	Euro	350	06-May-18	Floating
24-Apr-14	PPC Finance plc	United Kingdom	B	Euro	200	01-May-17	4.75
24-Apr-14	PPC Finance plc	United Kingdom	B	Euro	500	01-May-19	5.5
29-Apr-14	DELEK & AVNER (TAMAR BOND) LTD.	Israel	BBB-prelim	US Dollar	400		None
30-Apr-14	Schiphol Nederland B.V.	Netherlands	A+	Euro	80	28-Sep-16	Floating
1-May-14	Abu Dhabi National Energy Company PJSC	United Arab Emirates	A-	US Dollar	750	6-May-24	3.875
5-May-14	Autoroutes Paris-Rhin-Rhone S.A.	France	BBB	Euro	500	31-Mar-19	Floating
6-May-14	ContourGlobal Power Holdings S.A.	Luxembourg	BB-prelim	US Dollar	400	31-Dec-19	None
7-May-14	GDF SUEZ S.A.	France	A	Euro	5,000	3-Apr-19	None
07-May-14	Teollisuuden Voima Oyj	Finland	BBB	Euro	20	08-May-24	2.8
9-May-14	Drax Finance Ltd.	United Kingdom	BB+	Pound Sterling	70		None
9-May-14	Drax Finance Ltd.	United Kingdom	BB+	Pound Sterling	30		None
13-May-14	GDF SUEZ S.A.	France	A	Euro	1,200	19-May-20	1.375
13-May-14	GDF SUEZ S.A.	France	A	Euro	1,300	19-May-26	2.375
16-May-14	Teollisuuden Voima Oyj	Finland	BBB	Swedish Krona	550	19-May-20	2.84

Source: Standard & Poor's, Bloomberg, 26 May 2014

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