



Fitch: Portuguese Corporate Ratings Unaffected by Sovereign Downgrade

24 Nov 2011

Fitch Ratings-London/Barcelona-24 November 2011: Fitch Ratings says that following its downgrade of Portugal's Long-term foreign currency rating to 'BB+' / Negative Outlook (see 'Fitch Downgrades Portugal to 'BB+' from 'BBB-'; Outlook Negative'), its Portuguese corporate ratings are unchanged.

The following entities' ratings are unaffected:

EDP- Energias de Portugal, S.A.'s (EDP) and EDP Finance B.V.'s Long-term Issuer Default Ratings (IDR) and senior unsecured ratings are 'BBB+' / Rating Watch Negative (RWN). Both entities' Short-term IDRs of 'F2' are also on RWN.

Hidroelectrica del Cantabrico, S.A.'s (HC, wholly-owned by EDP) Long-term IDR of 'BBB+' and its Short-term IDR of 'F2' are on RWN.

Portugal Telecom's (PT) IDR is 'BBB-' / Negative. The senior unsecured rating of Portugal Telecom Finance International BV's bonds are 'BBB.'

Although EDP remains part-owned by the state, pending the privatisation process of up to 21.35% of the Portuguese government's stake, the above companies' ratings do not embed any element of central government support. Fitch continues to review the effect upon each issuer of ongoing and related austerity measures, and adverse effects upon the domestic banking systems.

Fitch established in its report "Eurozone Sovereign Pressures and Corporates", dated 5 April 2011, that certain corporates can be rated above their respective eurozone sovereign. The degree of stretch from the sovereign rating depends on factors such as the company's wholly domestic or international diversification.

Fitch has already stated that a potential one-notch sovereign downgrade of Portugal to 'BB+' would not result in an automatic downgrade of EDP's rating to 'BBB-' (see "Fitch Maintains EDP and Hidrocantabrico's 'BBB+' on RWN" dated 14 November 2011). The current RWN reflects the effect of a tariff deficit resulting from the Portuguese Energy Services Regulator's proposal to defer EDP's collection from the special regime generation in 2012 and deviations in the CMEC compensation mechanism. Both changes in regulation need to be confirmed by the end of December 2011, after which Fitch expects to resolve EDP's RWN. Using the guidance in the above Fitch report, any potential further downgrade of Portugal's sovereign rating would also result in a one notch downgrade of EDP's 'BBB+' ratings.

EDP had adequate liquidity of over EUR4bn at end-September 2011, including cash and available bank facilities. This largely covers the company's refinancing needs in the next 18 months but the company will have to tap the market to cover 2013 debt maturities.

Portugal Telecom's Negative Outlook already reflects the uncertainties facing the company in its home market, in particular the increased likelihood that consumer behaviour will be adversely affected. Fitch's current rating case assumptions already build in a fair degree of caution for this type of reaction with around 5% declines for both fixed and mobile service revenues in 2012 (after an assumed 9% decline in domestic revenue in 2011) and only slow recovery towards a flat position in 2013. Fitch will continue to monitor the situation in 2012 for any acceleration of domestic pressures which may cause current rating case assumptions to breach Fitch's stated net debt to EBITDA target metric of 3x for PT. Such pressures are likely to lead to a downgrade unless a path to deleveraging in the short term is clear.

PT has strong liquidity. Fitch believes that its refinancing requirements have been addressed through to 2014.

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Additional information is available at www.fitchratings.com.

Applicable criteria, 'Corporate Ratings Methodology', dated 12 August 2011 at www.fitchratings.com.

Applicable Criteria and Related Research:

Corporate Rating Methodology

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