

## Fitch: European Telcos, Utilities Can Mitigate Refinancing Risk In 2009 Despite High Funding Needs

Fitch Ratings-London-13 January 2009: Fitch Ratings says today that a combination of reasonable levels of balance sheet leverage and perceived defensive sector qualities, relative to other sectors, should ensure better access to public bond markets in H1 2009 for the European telecoms and utilities sectors, and mitigate any build-up of refinancing risk.

Both Telecoms and Energy & Utilities (E&U) are capital intensive sectors that rely heavily on bond markets every year to meet their funding needs. In telecoms, the 2009/2010 supply requirements are no exception with an estimated EUR51bn due for refinancing in 2009 and 2010 for the major European incumbent operators. Fitch notes that not all 2008 maturities were refinanced on the bond markets, and therefore revolving credit facilities (RCF) and back-up bank facilities were utilised, there is also some additional potential refinancing hangover from 2008. A similar pattern has emerged in the E&U sector with increased utilisation of RCF and some postponement of refinancing activity, resulting in a substantial amount of funding due for refinancing in 2009 and 2010.

Fitch believes that despite the ongoing impact of the global financial crisis, both the European telecoms and E&U sectors remain attractive for investors looking to return to highly-rated corporate bond yields. The underlying sector dynamics support this view, with a combination of strong cash flow generation (the same group of telecoms incumbent operators generated approximately EUR20bn in post dividend free cash flow in 2007/8), relatively low average leverage (net debt/EBITDA 2.3x for telecoms) and some defensive recession proof qualities such as less exposure to cyclical revenues. Fitch's incumbent telecoms portfolio is typically rated in the 'A-' (A minus) to high 'BBB' rating category, while incumbent E&U entities are typically rated from the 'A+'/'AA-' (AA minus) range to the mid 'BBB' rating category.

The agency notes that 2009 demand for telecoms and utility paper was demonstrated by Vodafone Group plc's ('A-'/(A minus))/F2'/Stable) move into the bond market last week with a EUR1.25bn seven year issue, and National Grid Electricity Transmission plc's ('A-'/(A minus))/F2'/Stable) GBP350m 2031 issue (senior unsecured rating 'A'). Both issues generated successful demand in the market by being more than three times oversubscribed and seeing pricing guidance tighten. While absolute spreads over government treasuries still appear high relative to this time last year, overall interest rates have significantly declined helping to mitigate the all-in cost to the issuers. Fitch also notes that while pricing remains somewhat volatile, the tightening seen in recent weeks for highly-rated corporate names (such as Vodafone and National Grid) should see other European telecoms and E&U issuers reacting sooner in 2009.

Fitch published its 2009 outlook on the telecoms sector, entitled "European Telecoms Credit Outlook 2009", on 2 December 2008. The outlook detailed the ability of the sector to withstand certain recessionary pressures, including the ability to conserve cash in case of refinancing need. The telecoms outlook and European energy and utilities outlooks for 2009 are available on Fitch's public website, [www.fitchratings.com](http://www.fitchratings.com).

Contacts: Mike Dunning, London, Tel: +44 (0) 20 7417 6343, Andrew Steel: +44 (0) 20 7417 4086.

Media Relations: Peter Fitzpatrick, London, Tel: + 44 (0)20 7417 4364, Email: [peter.fitzpatrick@fitchratings.com](mailto:peter.fitzpatrick@fitchratings.com).

Fitch's rating definitions and the terms of use of such ratings are available on the agency's public site, [www.fitchratings.com](http://www.fitchratings.com). Published ratings, criteria and methodologies are available from this site, at all times. Fitch's code of conduct, confidentiality, conflicts of interest, affiliate firewall, compliance and other relevant policies and procedures are also available from the 'Code of Conduct' section of this site.