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Research Update:

Austrian Utility Energie AG Oberoesterreich Rating Lowered To 'A'; Outlook Stable

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Rationale

On March 16, 2009, Standard & Poor's Ratings Services lowered its long-term corporate credit rating on Austrian utility Energie AG Oberoesterreich (Energie AG) to 'A' from 'A+'. The outlook is stable.

The downgrade reflects the expected impact on Energie AG's credit quality of the current economic downturn, recent acquisitions that have somewhat weakened its financial profile, some restructuring costs, and ongoing sustained investments.

The ratings on Energie AG reflect the company's regional electricity distribution monopoly, its strong position as the leading utility in the prosperous State of Upper Austria (AAA/Stable/A-1+), and its moderate financial profile. However, these strengths are offset by weakening power demand in the current environment, regulatory pressure on Energie AG's electricity network operations, and a degree of competition in the Austrian electricity retail market. Further risk factors are its increasing exposure to the higher-risk waste sector and lower-rated transition economies in Eastern Europe, and its long-term investment strategy in thermal generation facilities.

In fiscal year 2007/2008, the group recorded a still robust performance. Revenues reached €1.5 billion and EBITDA €298 million, increasing respectively by 33% and 8.8% compared with the previous year on the back of increased generation and sales as well as acquisitions. At the same time, reported net debt increased significantly to €627 million from €466 million. This increase was a result of growth investments and acquisitions, including the increase to 65% from 50% of Energie AG's stake in gas company OO Ferngas AG and the purchase of two Czech companies. In 2007/2008, Energie AG also received a €214 million capital increase in the context of its shareholder structure redefinition. However, overall results in 2008/2009 are likely to weaken due to the impact of the economic crisis at a moment when investments are set to remain sustained. In addition, Energie AG will incur some restructuring costs from its cross-border leasing transactions, one of which (a grid transaction) will be consensually terminated by end-March 2009, according to management. We anticipate a recovery in 2010, but its extent is uncertain and planned investments remain significant. Nevertheless, Energie AG retains a degree of flexibility to adapt its investments to the evolution of the macroeconomic environment.

Liquidity

We consider Energie AG's liquidity adequate. On Sept. 30, 2008, short-term debt was quite high at €369 million (43% of total debt) due to the maturity of a €150 million bond (18% of total debt) at end-February 2009 and the full

consolidation of OO Ferngas. Energie AG bridge-financed the bond maturity with bank lines and is currently arranging a medium-term facility. At the same time, Energie AG had available €538 million in liquidity, consisting of €224 million in cash and equivalents and €315 million in investment funds. The group also has available undrawn bank lines of €200 million to €300 million on average, although the majority is uncommitted for taxation reasons. However, several of the lines are either confirmed or provided by financial institutions which are also shareholders of Energie AG.

We expect Energie AG to be moderately cash flow negative in the short term, but available liquidity should cover its funding needs. In addition, planned investments are to a good extent deferrable.

Outlook

The stable outlook is based on our view that Energie AG can weather a certain degree of economic downturn over the short term while maintaining coverage of funds from operations to debt of about 30%. We could revise the outlook to negative if the current crisis affects the group more than we expected or if its financial profile deteriorates further. The rating does not factor in material changes in business risk, acquisitions, or changes in financial and dividend policies.

Rating upside is limited in the medium term.

Ratings List

Downgraded

	To	From
Energie AG Oberoesterreich		
Corporate Credit Rating	A/Stable/--	A+/Negative/--
Senior Unsecured	A	A+

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