Rating Action: Moody's downgrades Enel's ratings to Baa2; outlook negative

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Downgrades ratings on guaranteed subsidiaries of Enel and Enel-owned Endesa of Spain

London, 05 November 2012 -- Moody's Investors Service has today downgraded to Baa2 from Baa1 the senior unsecured ratings of Enel S.p.A. (Enel) and its guaranteed subsidiaries, Enel Investment Holding B.V., Enel Finance International N.V. and the debt it has assumed of Enel Finance International SA. Concurrently, Moody's has confirmed the short-term rating of Enel Finance International N.V. at Prime-2 (P-2).

In addition, Moody's has downgraded to Baa2 from Baa1 the ratings of Enel-owned Endesa S.A.'s guaranteed subsidiaries, International Endesa B.V. and Endesa Capital, S.A. Concurrently, Moody's has confirmed the P-2 ratings of Endesa S.A. and International Endesa B.V.

The outlook on all ratings is negative. This concludes the review for downgrade of the ratings initiated by Moody's on 15 June 2012.

RATINGS RATIONALE

The downgrades factor the heightened macroeconomic, political and regulatory challenges for utilities in Enel's core Spanish and Italian markets: where the company derived between 60-70% of its EBITDA at H1 2012. These more challenging conditions are linked to weaker sovereign ratings: the Kingdom of Spain's government bond rating was confirmed at Baa3 with a negative outlook on 16 October and Italy's government bond rating was downgraded to Baa2 with a negative outlook from A3 in July. Whilst Moody's expects the company to continue to take measures to limit the impact on its financial profile, these are unlikely to be sufficient to counter the increased risks and pressures in its operating environment such that the company's credit profile remains commensurate with a Baa1 rating.

Falling demand, weak spreads and structural changes in the generation markets, such as new renewables coming on stream, have squeezed Enel's profit margins, particularly in Italy, despite a relatively favourable fuel mix compared with those of competitors.

In addition, regulatory and political pressures have increased. Regulatory reforms for the electricity sector in Spain, recently announced by the government -- although yet to finalised and passed into law -- are aimed at eliminating the annual tariff deficit, currently running at around EUR5 billion. The measures include taxes on generation, in addition to earlier announced cuts to distribution remuneration, which Moody's expects to adversely affect Enel's earnings by hundreds of millions of euros. Whilst a portion of the generation taxes could be gradually passed through in the electricity prices to the end consumer, which could soften the impact on Enel, Moody's believes that the extent and timing of this is still uncertain.

Moody's expects that Enel will consider additional offsetting measures to those announced in its strategic plan in March (which were moderate divestments, lower dividends and some cutbacks in capital expenditure), which could allow for a degree of recovery in the company's financial profile. The extent of this recovery will also be influenced by progress on residual historic tariff deficits, yet to be securitised, which currently amount to around EUR5 billion on Enel's books. Whilst EUR7 billion of utilities' receivables rights (around 50% for Enel) have recently been assigned to the government-backed fund, FADE, until their securitisation is executed, the tariff deficits will continue to weigh on the company's financial profile.

Enel's earnings in international markets (Latin America, Russia and Eastern Europe and some renewables businesses) are unlikely to be sufficient to insulate the company significantly from risks in its core Italian and Spanish markets. However, Moody's has taken into account Enel's improved debt maturity profile and extended liquidity to 2014 and beyond, which provide flexibility in the current volatile funding environment. The rating agency expects that the company will maintain sufficiently diversified sources of liquidity in order to (1) withstand periods of difficult market access that may arise; and (2) avoid overconcentration of exposure to the Spanish and Italian banking systems.
Given the increasingly risky business environment, Enel would need to meet ratio guidance of retained cash flow (RCF)/net debt in the mid-teens and funds from operations (FFO)/net debt of around twenty in percentage terms in order to maintain its Baa2 rating.

The negative outlook on all ratings is in line with that on the ratings of Spain and Italy.

The downgrade of the ratings of Endesa's guaranteed subsidiaries is in line with the action taken on Enel's. This reflects that, although Endesa has greater exposure to Spain on a standalone basis, it remains closely integrated with Enel and whilst Endesa Spain has limited exposure to third-party debt, it benefits from an intercompany loan from Enel.

WHAT COULD CHANGE THE RATING UP/DOWN

Moody's is unlikely to upgrade Enel's and Endesa's ratings whilst the company remains significantly exposed to the macroeconomic environment in Italy and Spain.

The ratings outlook could stabilise if the macroeconomic environment improved sufficiently to justify a stabilisation of outlooks at the sovereign and company level and the company demonstrated a financial profile in line with ratio guidance.

Moody's could consider downgrading the ratings if (1) Enel were unable to maintain this financial profile; (2) if macroeconomic, operating or regulatory conditions were to deteriorate further; or (3) in the event of further declines in sovereign ratings.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Unregulated Utilities and Power Companies published in August 2009. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

Enel is Italy's largest vertically integrated electric utility, with significant global operations. Its ownership of the leading Spanish utility, Endesa (92.06%), gives its a significant presence in both Spain and Latin America. Enel additionally has interests in Central and Eastern Europe and Russia. Enel reported consolidated revenues of EUR79.5 billion as at FYE 2011.

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Helen Francis
VP - Senior Credit Officer
Infrastructure Finance
Moody’s Investors Service Ltd.
One Canada Square
Canary Wharf
London E14 5FA
United Kingdom
JOURNALISTS: 44 20 7772 5456
SUBSCRIBERS: 44 20 7772 5454

Monica Merli
MD - Infrastructure Finance
Infrastructure Finance
JOURNALISTS: 44 20 7772 5456
SUBSCRIBERS: 44 20 7772 5454

Releasing Office:
Moody’s Investors Service Ltd.
One Canada Square
Canary Wharf
London E14 5FA
United Kingdom
JOURNALISTS: 44 20 7772 5456
SUBSCRIBERS: 44 20 7772 5454

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