MOODY'S
INVESTORS SERVICE

Rating Action: Moody's affirms CEZ's A2 rating and maintains negative outlook

Global Credit Research - 27 Mar 2014

London, 27 March 2014 -- Moody's Investors Service ("Moody's") has today affirmed the A2 senior unsecured ratings of CEZ, a.s. (CEZ) and the A2 rating assigned to approximately EUR470 million of exchangeable bond securities issued by CEZ MH B.V., a 100% subsidiary of CEZ, and maintained the negative outlook. Concurrently, Moody's has also affirmed the (P)A2 long-term provisional rating of CEZ's euro medium-term note (EMTN) programme.

RATINGS RATIONALE

"The affirmation of CEZ's rating reflects Moody's expectation that a further decline in Central European electricity prices is unlikely and that the company has flexibility to mitigate a reduction in operating cash flow as existing hedges roll off" says Scott Phillips, a Moody's Vice President -- Senior Analyst in Moody's Infrastructure Finance group and lead analyst for CEZ. "However, recent comments from the Czech Government have increased uncertainty regarding the group's future financial policy," adds Mr. Phillips.

Since 2011, forward power prices in the Czech Republic have decreased from around EUR55/MWh to around EUR35/MWh driven by a number of factors including: (1) falls in the price of coal and carbon, which have reduced the cost of generation of price-setting plants in the region, (2) significant additions of renewable based generation sources on to the grid; and (3) weak demand for electricity. However, since mid-2013 power prices in the region have stabilised reflecting: (1) a modest increase in the price of carbon to around EUR6/tonne reflecting in part a plan by the European Commission to reform the market and boost prices; and (2) an improving outlook for the European macro economy.

CEZ's generation fleet in the Czech Republic is predominantly fixed-cost in nature -- with around 80% of total capacity represented by lignite, nuclear and hydro making it particularly exposed to movements in wholesale power prices. However, the group is somewhat protected in the near-to-medium term via its forward-selling strategy with around 86% of its power pre-sold for 2014 and around 73% pre-sold for 2015 -- at prices materially higher than available in the market. While lower prices will likely lead to a reduction in operating cash flow from 2015 onwards, Moody's believes that CEZ has some capacity to absorb this through further cuts to expenditure, if required. However, its ability to manage this environment may be constrained by a new and more aggressive dividend policy. On 24 March 2014, the new Finance Minister -- Mr. Andrej Babis -- suggested that CEZ should payout 100% of its net income for 2013. If such a policy were sustained going forwards, the resulting increase in leverage would significantly, and negatively affect CEZ's financial profile.

Moody's expects that CEZ's key credit metrics could fall below its guidance for the current A2 rating (funds from operations (FFO) / net debt above 30%; and retained cash flow (RCF) / net debt above 20%) in 2014 and 2015 although metrics should improve again in 2016 and 2017, assuming the existing payout ratio (of 50-60%) is maintained.

While CEZ's strategy to invest in one or more nuclear units at its Temelin site would likely lead to a significant reduction in key credit metrics, to levels incommensurate with the existing rating, Moody's does not currently factor in this risk as there remains significant uncertainty regarding both the timing and support level for such a project.

WHAT COULD CHANGE THE RATINGS UP/DOWN

Given the negative outlook on the ratings, Moody's does not expect upwards rating pressure. Confirmation of the existing dividend policy would be a catalyst for Moody's to consider stabilising the outlook.

Negative pressure on CEZ's rating would develop if (1) Moody's considers that the maintenance of financial metrics at levels comfortably above guidance over the medium term is unlikely; (2) the group were to materially increase its payout policy; or (3) the group develops new nuclear units that further weakens its financial profile.

PRINCIPAL METHODOLOGY

The methodologies used in these ratings were Unregulated Utilities and Power Companies published in August 2009, and the Government-Related Issuers: Methodology Update published in July 2010. Please see the Credit Policy page on www.moodys.com for a copy of these methodologies.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this rating action, and whose ratings may change as a result of this rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the ratings tab on the issuer/entity page on www.moodys.com for additional regulatory disclosures for each credit rating.

Scott Phillips
Vice President - Senior Analyst
Infrastructure Finance Group
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

Andrew Blease
Associate Managing Director
Infrastructure Finance Group
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

MOODY'S
INVESTORS SERVICE

CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. ("MIS") AND ITS AFFILIATES ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND CREDIT RATINGS AND RESEARCH PUBLICATIONS PUBLISHED BY MOODY'S ("MOODY'S PUBLICATION") MAY INCLUDE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL, FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS AND MOODY'S OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. CREDIT RATINGS AND MOODY'S PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. NEITHER CREDIT RATINGS NOR MOODY'S PUBLICATIONS COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS AND PUBLISHES MOODY'S PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS FOR RETAIL INVESTORS TO CONSIDER MOODY'S CREDIT RATINGS OR MOODY'S PUBLICATIONS IN MAKING ANY INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing the Moody's Publications.