



Rating Action: HERA S.p.A.

Moody's reviews Hera's A1 rating for possible downgrade

EUR500 million of rated debt affected

London, 20 May 2009 – Moody's Investors Service has today placed on review for possible downgrade the A1 long-term issuer and senior unsecured ratings of Hera SpA ("Hera"). The rating action reflects Moody's expectation that the company's investment programme for 2009-11, in conjunction with relatively high projected dividend payments, will likely result in a credit profile inconsistent with the current A1 rating.

Hera's investment plan for 2009-11 includes more than EUR1 billion of capex, of which approximately 43% is related to development initiatives and 57% to maintenance. The bulk of projected expenditures are concentrated on the waste segment (28%), where Hera aims to complete waste-to-energy ("WTE") projects under development and expand the special waste business segment, and water activities (35%), with capex aimed at optimising sourcing and expanding the network. As part of its plan, Hera also intends to strengthen its energy activities, with the strategic objective of increasing upstream integration, enlarging its customer base and expanding its district heating network.

Whilst Hera has indicated that funding of the investment programme for 2009-11 is expected to be fully covered by internally generated operating cash flows, Moody's expects that the combination of the planned capex and the relatively high projected dividend payments will likely result in a financial profile largely inconsistent with the current A1 rating. Moody's had previously indicated that it would expect Hera to exhibit ratios of FFO/Net Debt broadly within a range of low 20s-30%, RCF/Net Debt in the range of 18-25% and FFO Interest Cover of around 5-8x, in order to support the current A1 rating. Current ratio guidance reflects Hera's low to medium business risk profile. As part of its review, Moody's will also assess the evolution of Hera business risk resulting from the implementation of its investment plan. Overall, Moody's does not anticipate that any downgrade will be more than one notch.

Hera is considered a Government Related Issuer ("GRI") under Moody's methodology, in light of Hera's 15% ownership by the City of Bologna (rated Aa2/stable outlook). However, the company's current A1 rating does not benefit from any uplift from potential Government support.

The previous rating action on Hera was implemented on 26 January 2006, when Moody's first assigned a rating to the company.

The principal methodology used in rating Hera was "The Application of Joint Default Analysis to Government Related Issuers" published in April 2005, which can be found at www.moodys.com in the Credit Policy & Methodologies directory, in the Ratings Methodologies sub-directory. Other methodologies and factors that may have been considered in the process of rating Hera can also be found in the Credit Policy & Methodologies directory.

Hera is one of the largest integrated multi-utilities in Italy, with particular focus on the region of Emilia Romagna, one of the wealthiest in the country. The company provides a variety of public services, including the sale and distribution of gas and electricity, the provision of integrated water services and urban and special waste collection and disposal services, as well as ancillary activities, such as district heating and public lighting. In the financial year ended 31 December 2008, the company recorded a turnover of approximately EUR3.7 billion.

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