

Announcement: Moody's confirms Hera's Baa1 rating; negative outlook

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London, 26 November 2012 -- Moody's Investors Service has today confirmed the Baa1 long-term issuer and senior unsecured ratings of Hera S.p.A., one of the largest integrated multi-utilities in Italy. Concurrently, Moody's has also confirmed the (P)Baa1 long-term provisional rating on the company's euro medium-term note (EMTN) programme. The outlook on the ratings is negative. The rating confirmation concludes the review for downgrade initiated by Moody's on 16 July 2012.

RATINGS RATIONALE

Today's rating confirmation positions Hera's rating one notch above that of the Italian sovereign (Baa2 negative) and reflects the resilient profile of the company's regulated businesses, accounting for approximately half of its consolidated EBITDA. These activities, which mainly comprise gas and electricity distribution, the provision of integrated water services and urban waste collection, contribute to the stability and visibility of the company's cash flows, thus underpinning its ratings. The confirmation of Hera's Baa1 rating also takes into account the company's planned integration with the multi-utility Acegas-Aps. Moody's does not expect the integration to result in a change in Hera's risk profile, given the similarities between the composition of the two entities' business portfolios.

The rating confirmation also reflects Hera's continued focus on working capital management. Despite its exposure to public entities, whose credit profiles have weakened, and the more challenging macroeconomic environment characterising the Italian market, Moody's notes that Hera's working capital trends have not deteriorated materially.

The Baa1 rating also reflects (1) Hera's good liquidity position, which would enable the company to withstand a potential temporary closure of capital markets; and (2) its continued focus on increasing the availability and extending the maturities of its committed bank facilities.

Moody's cautions that Hera's Baa1 rating also includes the assumption that the company will strengthen its financial profile from current levels, in line with the targets included in its strategic plan. More specifically, Moody's expects Hera to report a funds from operations (FFO)/net debt ratio in the mid-teens in percentage terms in 2012. However, in order to support the current Baa1 rating going forward, Hera would need to exhibit FFO/net debt metrics positioned at least in the upper teens and retained cash flow (RCF)/net debt metrics at least in the low teens post completion of the planned integration with Acegas-Aps (expected to be finalised in 2013).

The negative outlook on Hera's Baa1 rating reflects the expected short-term weak positioning of the company's credit metrics and the risk that its financial profile could fail to sufficiently strengthen to a level commensurate with the current rating.

More specifically, Moody's notes that Hera's profile exhibits some elements of cyclicity, particularly in light of its presence in the waste business, where the decrease in volumes treated is resulting in some negative pressure on the segment's profitability. In addition, Moody's notes that the expected downward trend in Italian power prices would exert pressure on the cash flows Hera derives from its electricity generation activities, particularly associated with waste-to-energy plants. Moreover, Moody's expects margins from Hera's gas supply activities to decrease from 2013 onwards, driven by the ongoing reform of the retail market in Italy. However, the continued positioning of Hera's rating at the Baa1 level reflects Moody's view that the company exhibits some flexibility in the context of its diversified business portfolio and its financial policies to potentially implement measures aimed at strengthening its financial profile.

WHAT COULD CHANGE THE RATING UP/DOWN

Given the negative outlook, Moody's does not expect upward rating pressure in the short term. A recovery in Hera's financial metrics to levels commensurate with the guidance discussed above, associated with an improvement in the macroeconomic environment and a stabilisation of the outlook on the Italian sovereign rating, would be preconditions for Moody's to consider stabilising the current negative outlook on the company's rating.

Moody's could consider downgrading Hera's rating if (1) the company were unable to exhibit a recovery of its financial profile in line with the guidance discussed above after completing its integration with Acegas-Asp; (2) the

company's working capital trends or liquidity profile deteriorate; or (3) there were a further deterioration in the Italian macroeconomic environment or sovereign rating.

PRINCIPAL METHODOLOGY

Hera's ratings were assigned by evaluating factors that Moody's considers relevant to the credit profile of the issuer, such as the company's (i) business risk and competitive position compared with others within the industry; (ii) capital structure and financial risk; (iii) projected performance over the near to intermediate term; and (iv) management's track record and tolerance for risk. Moody's compared these attributes against other issuers both within and outside Hera's core industry and believes Hera's ratings are comparable to those of other issuers with similar credit risk.

Hera is one of the largest integrated multi-utilities in Italy, with a particular focus on the region of Emilia Romagna, one of the wealthiest in the country. Following the planned integration with Acegas-Aps, the company is expected to extend its presence to the neighbouring areas of Padua and Trieste. Hera 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 nine months to 30 September 2012, Hera reported a turnover of approximately EUR3.3 billion.

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