

Rating Action: Moody's downgrades the ratings of four Italian utilities

23 Oct 2018

London, 23 October 2018 -- Moody's Investors Service ("Moody's") has today downgraded the long-term ratings of the following four Italian utilities: Hera S.p.A. ("Hera"), Italgas S.p.A. ("Italgas"), SNAM S.p.A. ("SNAM") and Terna - Rete Elettrica Nazionale S.p.A. ("Terna"). Concurrently, Moody's has affirmed Terna's short-term P-2/(P)P-2 ratings. The outlook on all ratings is stable.

The rating actions were prompted by the rating agency's downgrade of the Government of Italy's bond rating to Baa3 with stable outlook from Baa2 under review for downgrade. For further information on the sovereign rating action, please refer to Moody's press release dated 19 October 2018 http://www.moodys.com/viewresearchdoc.aspx?docid=PR_390302

The ratings of 2i Rete Gas S.p.A., A2A S.p.A., ACEA S.p.A., Edison S.p.A. and ENEL S.p.A. are unaffected by this rating action.

A complete list of affected and unaffected issuers and associated ratings can be found at the end of this press release.

RATINGS RATIONALE

-Hera

The downgrade of Hera's ratings to Baa2 from Baa1 reflects the company's linkages with the sovereign, given that essentially all its earnings are generated in Italy. Given its public shareholder base, Hera is considered a Government-Related Issuer (GRI) and as such its ratings reflect the combination of a baseline credit assessment (BCA) of baa2 and assumptions of low support and moderate dependence. Hera's ratings are positioned one notch above that of the sovereign, reflecting: (1) the company's diversified business mix; (2) its portfolio of low risk domestic regulated activities which accounted for 43% of EBITDA in 2017, with limited exposure to volumes and underpinned by supportive and transparent regulatory frameworks; and (3) Hera's good liquidity position, which mitigates the company's exposure to the risk of volatility in the debt capital markets.

The stable outlook is in line with the stable outlook on the Government of Italy's rating, reflecting the company's linkages with the sovereign which constrain Hera's ratings at Baa2. The stable outlook also reflects Moody's expectation that Hera will continue to maintain its current solid financial and liquidity profile.

Any potential upgrade of Hera's ratings would be contingent on an upgrade of the Government of Italy's rating, combined with Hera maintaining its current underlying credit profile, including a good liquidity position.

Conversely, Hera's ratings could be downgraded (1) following a downgrade of the Government of Italy's rating given its linkages with the sovereign's credit profile; (2) following a structural deterioration in Hera's own credit profile as might be evidenced, for example, by a weakening of its financial ratios, including funds from operations (FFO)/net debt below the mid-teens or retained cash flow (RCF)/net debt below the low double digits, both in percentage terms; or (3) as a result of a deterioration in Hera's business risk profile driven by its growth strategy, with no offsetting strengthening in its credit metrics.

- Italgas

The downgrade of Italgas's ratings to Baa2 from Baa1 reflects the company's linkages with the sovereign, given that all its earnings are generated in Italy. Italgas's ratings are positioned one notch above that of the sovereign, reflecting the company's strategic position and leadership in the gas distribution sector in Italy and its fully regulated revenues. Italgas's ratings also factor in the company's solid liquidity position which mitigates its exposure to the risk of volatility in the debt capital markets.

The stable outlook is in line with the stable outlook on the Government of Italy's rating, reflecting the company's linkages with the sovereign which constrain Italgas's ratings at Baa2. The stable outlook also reflects Moody's expectation that Italgas will continue to maintain its current financial and liquidity profile.

Any potential upgrade of Italgas's ratings would be contingent on an upgrade of the Government of Italy's rating, combined with Italgas maintaining its current underlying credit profile, including a sound liquidity position.

Conversely, Italgas's ratings could be downgraded (1) following a downgrade of the Government of Italy's rating given its linkages with the sovereign's credit profile; or (2) following a structural deterioration in Italgas's own credit profile as might be evidenced, for example, by a weakening of its financial ratios, including FFO/net debt below 10% or RCF/net below 6%. Unanticipated adverse regulatory developments affecting the company's business risk profile, evidence of political interference or adverse fiscal measures could also put negative pressure on Italgas's ratings.

-SNAM

The downgrade of SNAM's ratings to Baa2 from Baa1 reflects the company's linkages with the sovereign, given that the substantial majority of its earnings are generated in Italy. SNAM's ratings are positioned one notch above that of the sovereign reflecting the company's strategic position in Italy's gas transmission and storage sector, its crucial role within the country's energy strategy, and the mainly regulated nature of its activities. SNAM's ratings also factor in the company's solid liquidity position which mitigates its exposure to the risk of volatility in the debt capital markets.

The stable outlook is in line with the stable outlook on the Government of Italy's rating, reflecting the company's linkages with the sovereign which constrain SNAM's ratings at Baa2. The stable outlook also reflects the rating agency's expectation that SNAM will continue to maintain its current sound financial and liquidity profile.

Any potential upgrade of SNAM's ratings would be contingent on an upgrade of the Government of Italy's rating combined with SNAM maintaining its current underlying credit positioning and sound liquidity profile.

Conversely, SNAM's ratings could be downgraded (1) following a downgrade of the Government of Italy's rating given its linkages with the sovereign's credit profile; or (2) following a structural deterioration in SNAM's own credit profile as might be evidenced, for example, by a weakening of FFO/ net debt and RCF/net debt, respectively, to below the high single digits in percentage terms and 5%, or if net debt/fixed assets was to exceed 80%. Unanticipated adverse regulatory developments affecting the company's business risk profile, evidence of political interference or adverse fiscal measures could also put negative pressure on SNAM's ratings.

- Terna

The downgrade of Terna's long term ratings to Baa2 from Baa1 reflects the company's linkages with the sovereign, given that the substantial majority of its earnings are generated in Italy. Terna's ratings are positioned one notch above that of the sovereign, reflecting the company's strategic position as owner and operator of Italy's electricity transmission assets, its crucial role in delivering the country's energy strategy as well as the mainly regulated nature of its activities. Terna's ratings also factor in the company's solid liquidity position which mitigates its exposure to the risk of volatility in the debt capital markets.

The affirmation of Terna's short-term P-2/(P)P-2 ratings reflects the linkage between short-term and long-term ratings under Moody's rating scale.

The stable outlook is in line with the stable outlook on the Government of Italy's rating, reflecting the company's linkages with the sovereign which constrain Terna's ratings at Baa2. The stable outlook also reflects Moody's expectation that Terna will continue to maintain its current sound financial and liquidity profile.

Any potential upgrade of Terna's ratings would be contingent on an upgrade of the Government of Italy's rating, combined with Terna maintaining its current underlying credit profile, including a sound liquidity position.

Conversely, Terna's ratings could be downgraded (1) following a downgrade of the Government of Italy's rating given its linkages with the sovereign's credit profile; or (2) following a structural deterioration in Terna's own credit profile as might be evidenced, for example, by a weakening of FFO/net debt below the high single digits in percentage terms or RCF/net debt below 5%. Unanticipated adverse regulatory developments affecting the company's business risk profile, evidence of political interference or adverse fiscal measures could also put negative pressure on Terna's ratings.

LIST OF AFFECTED AND UNAFFECTED RATINGS

Downgrades:

..Issuer: Hera S.p.A.

.... Issuer Rating, Downgraded to Baa2 from Baa1

....Senior Unsecured Medium-Term Note Program, Downgraded to (P)Baa2 from (P)Baa1

....Senior Unsecured Regular Bond/Debenture, Downgraded to Baa2 from Baa1

..Issuer: Italgas S.p.A.

.... Issuer Rating, Downgraded to Baa2 from Baa1

....Senior Unsecured Medium-Term Note Program, Downgraded to (P)Baa2 from (P)Baa1

....Senior Unsecured Regular Bond/Debenture, Downgraded to Baa2 from Baa1

..Issuer: Terna - Rete Elettrica Nazionale S.p.A.

.... Issuer Rating, Downgraded to Baa2 from Baa1

....Senior Unsecured Medium-Term Note Program, Downgraded to (P)Baa2 from (P)Baa1

....Senior Unsecured Regular Bond/Debenture, Downgraded to Baa2 from Baa1

..Issuer: SNAM S.p.A.

.... Issuer Rating, Downgraded to Baa2 from Baa1

....Senior Unsecured Conv./Exch. Bond/Debenture, Downgraded to Baa2 from Baa1

....Senior Unsecured Medium-Term Note Program, Downgraded to (P)Baa2 from (P)Baa1

....Senior Unsecured Regular Bond/Debenture, Downgraded to Baa2 from Baa1

Affirmations:

..Issuer: Terna - Rete Elettrica Nazionale S.p.A.

.... Issuer Rating, Affirmed P-2

....Senior Unsecured Medium-Term Note Program, Affirmed (P)P-2

No action:

..Issuer: 2i Rete Gas S.p.A.

.... Issuer Rating, Baa2

....Senior Unsecured Medium-Term Note Program, (P)Baa2

....Senior Unsecured Regular Bond/Debenture, Baa2

....Outlook, Stable

..Issuer: A2A S.p.A.

.... Issuer Rating, Baa2

....Senior Unsecured Medium-Term Note Program, (P)Baa2

....Senior Unsecured Regular Bond/Debenture, Baa2

....Outlook, Stable

..Issuer: ACEA S.p.A.

.... Issuer Rating, Baa2

....Senior Unsecured Medium-Term Note Program, (P)Baa2

....Senior Unsecured Regular Bond/Debenture, Baa2

....Outlook, Stable

..Issuer: Edison S.p.A.

.... Issuer Rating, Baa3

....Outlook, Stable

..Issuer: ENEL S.p.A.

.... Issuer Rating, Baa2

....Senior Unsecured Medium-Term Note Program, (P)Baa2

....Senior Unsecured Regular Bond/Debenture, Baa2

....BACKED Senior Unsecured Regular Bond/Debenture, Baa2

....Subordinate, Ba1

....Junior Subordinate, Ba1

....Outlook, Stable

Outlook Actions:

..Issuer: Hera S.p.A.

....Outlook, Changed To Stable From Rating Under Review

..Issuer: Italgas S.p.A.

....Outlook, Changed To Stable From Rating Under Review

..Issuer: Terna - Rete Elettrica Nazionale S.p.A.

....Outlook, Changed To Stable From Rating Under Review

..Issuer: SNAM S.p.A.

....Outlook, Changed To Stable From Rating Under Review

PRINCIPAL METHODOLOGIES

The principal methodology used in rating Terna - Rete Elettrica Nazionale S.p.A., Italgas S.p.A. and SNAM S.p.A. was Regulated Electric and Gas Networks published in March 2017. The methodologies used in rating Hera S.p.A. were Unregulated Utilities and Unregulated Power Companies published in May 2017, and Government-Related Issuers published in June 2018. Please see the Rating Methodologies page on www.moodys.com for a copy of these methodologies.

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The person who approved SNAM S.p.A. credit ratings is Neil Griffiths-Lambeth, Associate Managing Director, Infrastructure Finance Group, JOURNALISTS: 44 20 7772 5456, CLIENT SERVICE: 44 20 7772 5454. The person who approved Terna - Rete Elettrica Nazionale S.p.A., Italgas S.p.A., and Hera S.p.A. credit ratings is Paul Marty, Senior Vice President/Manager, Infrastructure Finance Group, JOURNALISTS: 44 20 7772 5456, CLIENT SERVICE: 44 20 7772 5454.

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