CREDIT OPINION
6 September 2024

Update

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RATINGS

Hera S.p.A.

Domicile	Bologna, Italy
Long Term Rating	Baa2
Type	LT Issuer Rating - Dom Curr
Outlook	Stable

Please see the *ratings section* *at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.*

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Hera S.p.A.

Update to credit analysis

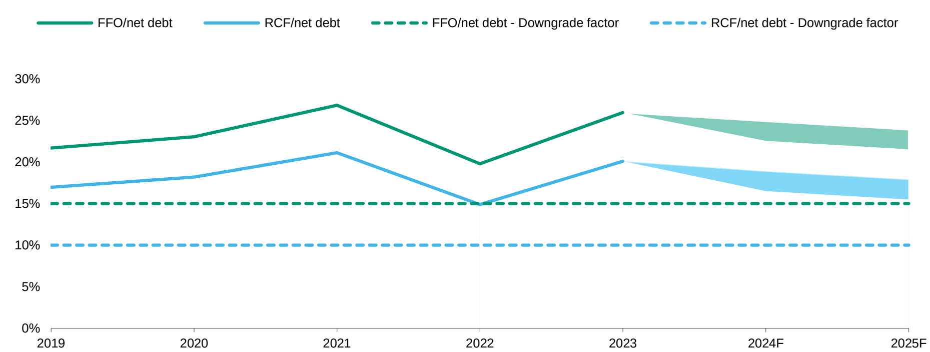
Summary

The credit profile of Hera S.p.A. (Baa2 stable) is supported by the company's diversified business mix; its portfolio of low-risk domestic fully regulated activities (32% of EBITDA in the 12 months that ended June 2024) with limited price and volume exposure, underpinned by supportive and transparent regulatory frameworks; the contribution from quasi-regulated activities (8% of EBITDA in the 12 months that ended June 2024), which support cash flow stability; the company's strategy of growth through small and medium-sized acquisitions mainly funded with exchange of shares; and its solid liquidity and financial profiles.

These positives are balanced by Hera's exposure to the credit profile of the Government of Italy (Baa3 stable), because the company generates all its earnings domestically; its exposure to the macroeconomic cycle and competitive pressure through its electricity and gas supply businesses and waste treatment (around 55% of EBITDA in the 12 months that ended June 2024); and the exposure, although limited, of Hera's power generation (less than 1% of EBITDA in the 12 months that ended June 2024) and waste businesses to volatile power prices in Italy.

From a financial perspective, we expect Hera to maintain its current sound financial profile, with funds from operations (FFO)/net debt ratio above 20% in 2024-25.

Exhibit 1
Hera's key credit metrics will remain solid in 2024-25



All figures and ratios are based on adjusted financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
Periods are financial year-end unless indicated.
Moody's forecasts are Moody's opinion and do not represent the views of the issuer.
Sources: Moody's Financial Metrics™ and Moody's Ratings forecasts

Credit strengths

- Diversified business mix including a portfolio of low-risk domestic regulated networks, with limited price and volume exposure
- Contribution from quasi-regulated activities improving cash flow stability
- Credit-friendly strategy of external growth based on small and medium-sized acquisitions funded through exchange of shares
- Solid financial and liquidity profiles

Credit challenges

- Exposure to potential changes in the sovereign's credit profile
- Exposure of unregulated and waste businesses to the cyclical macroeconomic environment and volatile power prices
- Potential increase in competitive pressure resulting from retail energy supply market liberalisation in Italy

Rating outlook

The stable rating outlook reflects our expectation that Hera will maintain financial metrics consistent with its current rating. It further takes into account the stable outlook on the Government of Italy's rating because all of Hera's earnings are generated in Italy, linking its creditworthiness with that of the sovereign.

Factors that could lead to an upgrade

- An upgrade of the Government of Italy's rating; and
- Hera maintaining its current underlying credit profile, reflected in funds from operations (FFO)/net debt above the high teens and retained cash flow (RCF)/net debt above the low teens, both in percentage terms, and good liquidity

Factors that could lead to a downgrade

- A downgrade of the Government of Italy's rating
- A structural deterioration in Hera's own credit profile, which might be illustrated, for example, by a weakening of its financial ratios, including FFO/net debt below the midteens or RCF/net debt below the low-double digits, both in percentage terms
- A deterioration in Hera's business risk profile as a result of its growth strategy, which is not offset by a strengthening of its credit metrics

Key indicators

Exhibit 2
Hera S.p.A.

	2019	2020	2021	2022	2023	2024F	2025F
FFO interest coverage	8.2x	10.4x	13.0x	11.2x	8.7x	8.5x - 9.5x	8.5x - 9.5x
FFO / Net Debt	21.7%	23.0%	26.8%	19.8%	25.9%	24.0% - 25.0%	23.0% - 24.0%
RCF / Net Debt	17.0%	18.2%	21.1%	14.9%	20.1%	18.0% - 19.0%	17.0% - 18.0%

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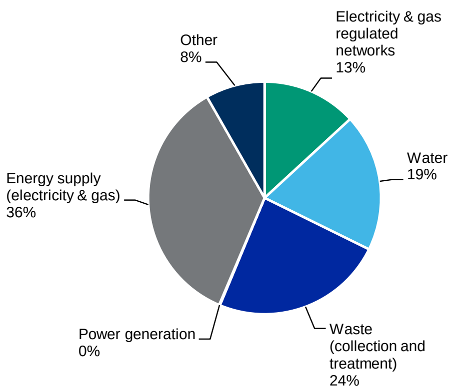
Profile

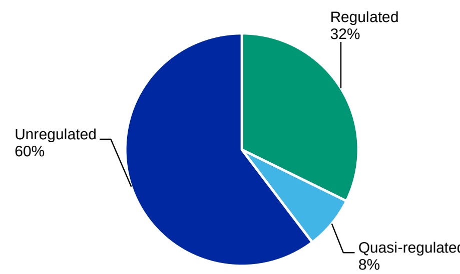
Hera S.p.A. is one of the largest multi-utilities in Italy. About 46% of the company's share capital is held by 111 municipalities, the largest of which is the City of Bologna (with a stake of around 8%). Hera has a strong territorial presence in the region of Emilia Romagna and more generally in the northeast of Italy. The company has a diversified and vertically integrated portfolio of public utility services, which includes regulated water and energy networks, waste collection and treatment, energy from waste generation activities, gas and electricity retail sales, as well as ancillary activities such as district heating and public lighting. In the 12 months that ended June 2024, Hera reported consolidated revenue of €12.1 billion and EBITDA of €1.5 billion.

Exhibit 3
Hera's EBITDA breakdown (for the 12 months that ended June 2024)



Source: Company filings

Exhibit 4
Hera's EBITDA breakdown between regulated and unregulated activities (for the 12 months that ended June 2024)



Regulated activities include integrated water services, and gas and electricity networks. Quasi-regulated covers public lighting, waste collection and district heating.
Source: Company filings

Detailed credit considerations

Hera's credit profile is constrained by its exposure to Italy

Hera's rating is positioned one notch above that of Italy because of the company's limited reliance on domestic funding sources, resilience to economic cycles and our expectation that government interference will not hurt Hera's cash flow significantly (see Assessing the impact of Sovereign Credit Quality on Other Ratings).

Increasingly established regulatory framework for integrated water activities supports earnings stability

Water distribution activities accounted for around 19% of Hera's consolidated EBITDA in the 12 months that ended June 2024. These activities benefit from a regulatory framework (Metodo Tariffario Idrico [MTI]) set by Autorità di Regolazione per Energia Reti e Ambiente (ARERA), which is similar to the well-established regulations that ARERA applies to Italy's electricity and gas networks (see below).

The regulatory framework for Italian integrated water service providers is stable and transparent, and continues to support the predictability of Hera's revenue and cash flows. The fourth regulatory period (MTI-4) for water distribution activities spans 2024-29. With MTI-4, the regulatory period was extended to six years from four, but a periodic review every two years will update the allowed return, as well as revise the allowance for noncontrollable costs incurred by the operators. In line with previous regulatory periods, tariffs allow for the full recovery of efficient operating expenses and provide a return on the capital invested or Regulated Asset Base (RAB remuneration). The formula to calculate the allowed return on the RAB was confirmed in the fourth regulatory period. Nonetheless, an update of the formula parameters increased the value of allowed returns applied in 2024-25 to 6.13% from 4.8%. As a result of the 130-basis point (bp) increase in the allowed returns alone, revenue will grow by roughly €25 million per year over 2024-25.

Separately [1], to improve the technical quality of the service provided and enhance the resilience of water systems, ARERA confirmed the incentives introduced in the previous regulatory period, extended to include further objectives and parameters, and introduced new incentives. These allocate bonuses or penalties to the water operators based on their ability to achieve specific and general standards. In October 2023[2], ARERA communicated the bonuses and penalties applicable to the water operators based on the technical standards achieved in 2020-21. For Hera, these corresponded to a €16.2 million bonus, which helped it mitigate the adverse effects on profitability from increased energy and raw material costs. Given Hera's track record of efficient management of operations and high technical quality standards, we expect the company will continue to benefit from these incentives.

In the 12 months that ended June 2024, the company reported EBITDA of €289 million for its water activities (+9.0% from the same period in 2023). We expect Hera to continue investing in its water networks in line with its strategic plan, thus supporting future tariff increases and the profitability of its regulated water business.

Regulated energy networks also offer cash flow visibility in the context of a well-tested regulatory framework

Hera's electricity and gas distribution networks accounted for around 13% of its consolidated EBITDA in the 12 months that ended June 2024. Energy network activities benefit from a stable and transparent regulatory framework set by ARERA.

The fifth tariff cycle for gas distribution activities runs between 2020 and 2025, while the sixth regulatory period for electricity distribution networks covers 2024-27. The regulation for both gas and electricity grids ensures a good degree of cost recovery and adequate capital remuneration, although allowances are not updated annually (except for inflation and volume reference). Operating expenditure is subject to an efficiency parameter[3] (X-factor), and operators are incentivised to outperform regulatory efficiency assumptions because additional efficiencies can be retained.

Since January 2024, electricity distribution remuneration also reflects the new ROSS regulation (regulation for spending and service objectives) outlined in ARERA resolutions 163/2023 and 497/23, defining the determination of recognised costs for 2024-31[4]. The ROSS system marks a move to a total expenditure (totex) system for electricity grids, with the aim of improving investment decisions and overall system efficiency. In the first phase of the ROSS framework (ROSS-base), instead of receiving incentives on costs and coverage of spending (capital and operating spending), regulated activities will be remunerated according to the benefits delivered to the Italian system, with greater leeway for regulated companies to deliver these benefits. Total expenditure, equal to the sum of operating and capital spending, will be split between fast money (recovered through tariffs within the year) and slow money (added to RAB), as defined by a capitalization rate based on the company's past and projected split between operating and capital spending. Operating efficiency incentives are based on a sharing mechanism and defined on the basis of a regulatory menu chosen by the operator, as opposed to the X-factor defined by the regulator under the previous framework[5]. We expect the move to be credit neutral (see Move to totex regulation likely credit neutral, with implementation gradual, June 2023), however . ARERA announced that it will also apply the ROSS system to gas distribution from 2026.

On 23 December 2021, ARERA published its final resolution on the criteria for determining and updating the weighted average cost of capital (WACC) over 2022-27 (see Lower returns will likely weaken credit metrics from 2022 and Second regulatory consultation points to a progressively lower WACC), divided into two semi-periods (2022-24 and 2025-27). The regulator validated a methodology exhibiting broad continuity with the historical approach, with the main adjustments reflecting a progressive implementation of parameters that more closely reflected the macroeconomic environment prevailing at the time of the regulatory update, characterised by low yields.

The WACC level can be revised yearly before 2025 according to a trigger mechanism based on the evolution of certain parameters. For 2024, the application of the trigger mechanism led to a sizeable increase of 80 bps in the WACC to be applied to electricity distribution (to 6.0%) and of 90 bps for gas distribution (to 6.5%)[6]. We estimate this will have a positive impact of around €14 million on Hera's EBITDA (see Regulatory update for energy infrastructure assets allows for higher return on capital, 5 December 2023). Visibility on the WACC applicable from 2025 is limited because with the start of the second regulatory sub-period, ARERA could conduct a more comprehensive review of applicable parameters, including, for example, the beta factor applied to electricity and gas distribution networks. Overall, we expect a small reduction in WACC in 2025.

Exhibit 5

Summary of regulatory frameworks applicable to Hera's energy and water distribution businesses

	Water distribution	Electricity distribution	Gas distribution
Regulatory body	ARERA	ARERA	ARERA
		Independent authority, 7-year mandate. 2/3 majority vote by Parliament required to appoint board members	
Start - End of regulatory period	MTI-4 2024-29 6-year period; with 2-years reviews	TIT-6 2024-27 ROSS 2024-31	RTDG-5 2020-25 6-year period divided in two interim periods (2020-22 and 2023-25)
Tariff-setting framework	Price-cap with incentives	Totex	Price-cap with incentives
Incentives	Incentives on quality of service provided (inc. environment sustainability)	Incentives on investments and quality of service provided	Incentives / penalties related to networks leakage
Volume exposure	No long term exposure given ex post volume correction	No long term exposure given ex post volume correction	No long term exposure given ex post volume correction
RAB calculation	Re-evalued historical cost: RAB adjusted for inflation annually	Re-evalued historical cost until totex introduction, then RAB increased by capitalisation rate x totex; annual inflation adjustment	Re-evalued historical cost: RAB adjusted for inflation annually
Allowed return on capital*	2024-25: 6.1%**	2024: 6.0%	2024: 6.5%
Next review of allowed return on capital	Every 2 years	Dec-24	Dec-24
Time lag on investments/D&A	2 years (investments and D&A)	1 year on investments, 1 year on D&A (from 2025)	1 year
Total RAB (2023)	€1.81 billion	€0.4 billion	€1.12 billion

*Real pretax return for electricity and gas distribution. Water distribution's allowed return on capital is calculated as the sum of financial and fiscal remuneration, and includes a portion of tax components.
**Allowed return on investments developed from 2012 is increased by 100 bps.
Source: Company filings, ARERA, Moody's Ratings

In the 12 months that ended June 2024, the company reported an EBITDA of around €198 million for its gas and electricity distribution activities, up 9.4% from the year-earlier period, mainly as a result of the increase in WACC. We expect Hera will continue to invest in its energy networks with a focus on digitalisation, resilience and sustainability.

Hera strengthened its position in the energy supply segment, which exposes the company to price and volume risks

In the 12 months that ended June 2024, almost 35% of Hera's consolidated EBITDA came from natural gas and electricity sales and trading businesses. We consider these activities as having higher risk because the company is exposed to volume and price fluctuations stemming from the cyclical macroeconomic environment and market competition.

In the gas segment, Hera has a significant presence, with around 2.9 billion cubic meters (bcm) of gas sold in the 12 months that ended June 2024 (excluding Ascopiave) to retail, industrial and commercial customers and a total of 2.1 million clients served.

Hera has also a strong and growing presence in the electricity segment, with 15.4 terawatt hours (TWh) sold in the 12 months that ended June 2024 to retail, industrial and commercial customers (1.8 million in total). While electricity supply activities remain smaller in size than those of gas supply, these activities represent a natural hedge against shifts in energy consumption.

In the supply market, Hera has grown to be the third national company, with 3.9 million customers as of June 2024. As a result of the electricity market liberalisation, Hera's customer base has further expanded in July 2024, as it was awarded roughly 1 million of customers that were previously in the enhanced protection market [EPM - *Mercato di Maggior Tutela*], based on a tender procedure. We expect these new additions to dilute margins in the first few years before Hera can extract synergies. The liberalised business is exposed to volatile prices and volumes, mitigated by the high share of variable price contracts, accounting for 77% of electricity and 85% of gas contracts as of December 2023.

Hera has also consolidated its presence in the last resort market. With the award of three out of four tenders in 2023, it became the national leader in the sector. We expect these customers will help sustain Hera's margins in the supply segment in 2024-25, after which last resort customers will be assigned through new tenders. Despite the exposure to last resort markets, Hera continues to benefit from a resilient customer base, with total unpaid ratio at around 1%.

In the 12 months that ended June 2024, the divisional EBITDA increased to €534 million (+44% from the same period in 2023) resulting from an increase in the customer base (+5% year over year), partially offset by lower volumes in the gas supply business, and higher margins because of the review of most contracts.

Waste management is exposed to cyclical macroeconomic conditions, although the regulated nature of the domestic waste collection mitigates price risks

Hera's environmental activities (24% of consolidated EBITDA in the 12 months that ended June 2024) are split between collection (4% of EBITDA), and treatment of urban and industrial volumes (20% of EBITDA). The company operates in the entire waste cycle with 101 plants used for municipal and special waste treatment, as well as plastic recycling.

Waste treatment activities expose the company to the cyclical macroeconomic environment and, to a lesser extent, volatile power prices in Italy through the electricity produced from its waste-to-energy (WTE) plants (around 0.9 TWh of electricity and 0.1 TWh of thermal energy generated in 2023). The company also relies on a solid urban waste collection base, which is a natural upstream contributor to waste treatment activities. This business is performed under concessions assigned by local authorities through tenders. Since the start of 2020, ARERA regulates collection activities, with the recognition of regulatory operating expenses based on a two-year lag, with the application of an efficiency factor, and a WACC-based RAB remuneration. The mechanism should eliminate price exposure, but pending ARERA's definition of concession schemes, the pricing impact of regulation is limited only to concessions not awarded through tenders or those that have expired. Since the start of the second regulatory period in 2022, the regulation also applies to treatment of urban waste, although it does not apply to nonintegrated operators that manage nonessential treatment plants (impianti aggiuntivi), delegating the identification of these plants to each region. Pending identification of such plants, and the finalisation of the regulatory framework applicable to collection activities, most of the company's waste business is subject only to greater regulatory oversight and quality requirements.

In the 12 months that ended June 2024, the EBITDA of Hera's waste management division (treatment and collection) grew by €11.8 million, up 3.4% from the 12 months that ended June 2023. This was mainly driven by the increase in the price of waste treated, byproducts and energy sold from WTE. These positive dynamics were partly offset by higher costs of raw materials (including chemicals) and a slowdown in industrial activities during the period, which reduced waste volumes.

We believe the fragmented and undersupplied waste treatment market in Italy increases the potential for Hera to reach its target of 8.8 total million tonnes treated in 2027 (from 7.7 million tonnes in 2023). This target mainly relies upon strengthening its leadership at the national level and develop its treatment capacity. In recent years, Hera has been pursuing a strategy of vertical integration and expansion through small and medium-sized acquisitions that contributed to the growth of its waste business.

ARERA's regulatory framework for waste activities enhances predictability despite some uncertainties

With resolution 443/2019/R/rif of 31 October 2019, ARERA approved the first waste tariff method (MTR-1) for the period 2018-21. The regulation implemented principles similar to those applied to more established regulated activities such as energy networks and water services.

In this context, on 3 August 2021, ARERA published the final ruling[7] for the second regulatory period (MTR-2) covering 2022-25. Among others, the regulator confirmed the general framework of MTR-1, including a RAB-base remuneration system and the recognition of regulatory operating expense. Under MTR-2, annual tariff increases are subject to a cap, which is a function of inflation, quality parameters and an efficiency factor. ARERA also clarified that the regulation currently does not apply to nonintegrated operators that manage nonessential treatment plants (impianti aggiuntivi). The region of Emilia-Romagna, where most of Hera's treatment plants are concentrated, defined all urban waste treatment plants as essential, although the decision was canceled by the regional administrative court and later by the Council of State. Hence, as of September 2024, Hera's treatment plants are not subject to regulation, but this could change later as the region of Emilia Romagna will define essential plants.

In August 2022[8], ARERA set the RAB remuneration for 2022-25 at 5.6% for integrated waste management services and 6.0% for waste treatment activities.

Notwithstanding some uncertainties around the precise impact of the regulatory framework on Hera's waste treatment activities, related to the definition of essential plants, we continue to see positively ARERA's efforts to provide regulatory stability and promote efficiency in managing the waste cycle services. More broadly, the regulation will increase the predictability of Hera's waste earnings by decreasing its exposure to price risk for part of the business.

Power generation and energy efficiency contribution is volatile

Hera's power generation activities expose the company to volatile power prices in Italy, although this exposure is limited by their small weight (less than 1% of the company's EBITDA). In addition to the power generated through its WTE plants, in 2023, Hera produced around 0.5 TWh of electricity through its cogeneration and renewable plants.

As of June 2024, the EBITDA contribution from power generation activities was down by €18.1 million (-91.4%) from the 12 months that ended June 2023, mainly as a result of the decrease of power prices after the peak reached in the second half of 2022.

Energy efficiency EBITDA was down by €55 million in the 12 months that ended June 2024 (-43.4%), contributing €72 million, or 5% of the group's EBITDA. We expect it to stabilise at lower levels from 2024 as last year's results were mainly related to the effect of the so-called Superbonus scheme, which ended in 2023. Under the scheme, the government provides compensation for undertaking energy efficiency works, in the form of a tax credit to be recovered over four years. Hence, the growth in the business, caused a sizeable working capital absorption, which we expect to be reversed in the coming years. In 2024, we expect energy efficiency EBITDA to decrease toward historical levels, although the business unit could benefit from long term energy efficiency trends.

Hera's 2023-27 business plan leaves business risk broadly unchanged and supports financial flexibility

In January 2024, Hera updated its five-year (2023-27) business plan, targeting EBITDA of €1.65 billion by 2027, implying an increase of around 10% from 2023. This growth will be underpinned by €4.4 billion of investments through 2027 (€300 million higher than the previous 2022-26 plan), in large part directed towards regulated activities (roughly 47%, excluding waste collection and district heating). Around 52% of the total planned investments are earmarked for maintenance, while the rest focuses on organic development. The company also plans to invest around €400 million in M&A.

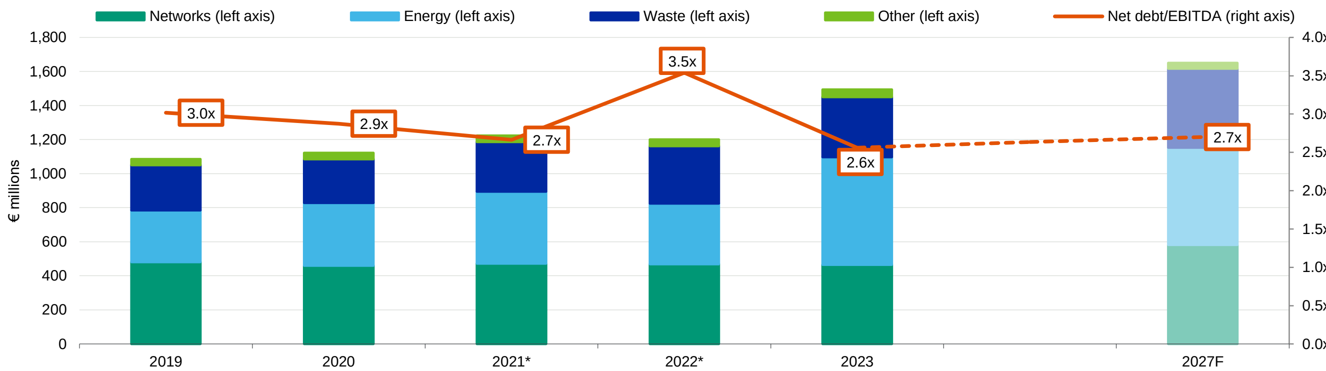
The key levers that management expects to help Hera achieve EBITDA of €1.65 billion by 2027 (versus €1.29 billion as of December 2022) are organic growth, amounting to around €375 million up to 2027, driven by regulated tariff increases, efficiencies and positive dynamics in the waste treatment segment; and small and medium-sized credit-positive M&A, contributing €100 million of EBITDA by 2027, largely directed towards the waste and market segments. These will more than compensate for the likely decrease of €120 million as the last resort customers will be assigned through new tenders.

Among others, the additional top-line growth will be sustained by an increase in waste treatment capacity (WTEs and biomethane) and the development of new energy supply services. Furthermore, efficiencies could be achieved through predictive network maintenance, digitalisation of operations and a reduction in the cost to serve energy customers.

We expect the share of Hera's EBITDA generated from fully regulated activities to remain broadly stable over the plan horizon, with an average EBITDA contribution of around 35% until 2027.

Exhibit 6

Hera's 2023-27 business plan: planned EBITDA growth and reported net debt/EBITDA evolution



Periods are financial year-end unless indicated.
The evolution of leverage is calculated as reported net debt/EBITDA including the put option related to the Ascopiave deal starting from 2021.
*2021 and 2022 EBITDA does not include adjustment for a temporary accounting difference in gas stock valuation.
Sources: Company filings and Moody's Ratings

Stable credit metrics underpin financial flexibility

In December 2023, Hera's reported EBITDA increased by 15% from 2022, mainly as a result of a strong operating performance in the energy supply and waste businesses, leading to solid cash generation, with reported cash flow from operating activities of €1.6 billion. Accordingly, reported net debt at the end of 2023 decreased by 10% year over year to €3.8 billion, with reported net leverage at 2.6x, down from 3.3x in 2022. Hera's EBITDA further grew in the first half of 2024 (+9% in the 12 months that ended June 2024 from the same period in 2023) as an increase in regulated revenue, mainly related to higher recognised WACC and inflation, and unregulated business, supported by growth in electricity customers and waste treated volumes, more than offset the anticipated decline related to the end of the energy efficiency incentives. As a result, reported leverage remained broadly stable at 2.7x.

Over 2024-25, we expect annual capital spending (net of grants) of around €0.9 billion, higher than the average €0.8 billion spent in 2022-23, to be mainly financed by internally generated cash flows. As a result of sustained operating performance and prudent financial management, we expect Hera to maintain a financial profile comfortably in line with the ratio guidance for the current rating. Notably, we expect the company to maintain Moody's-adjusted FFO/net debt above 20% and RCF/net debt above the mid-teens in percentage terms over 2024-25.

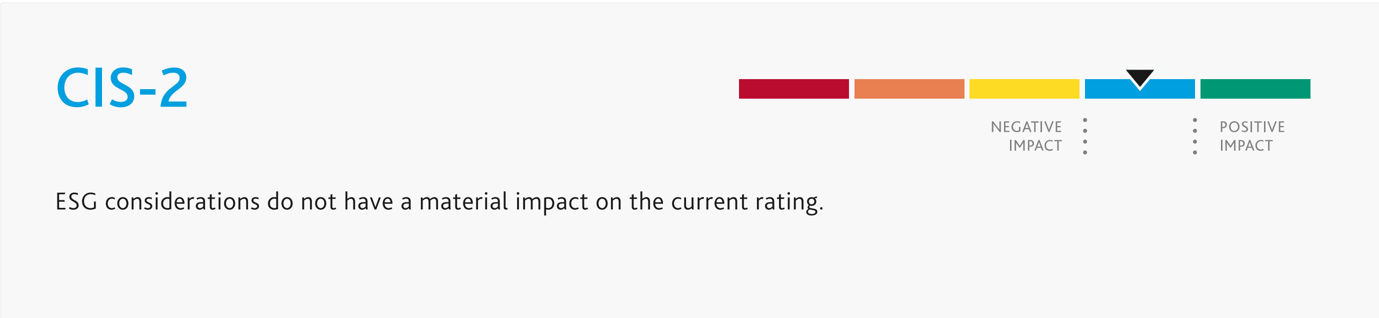
Consolidation strategy is creditor friendly

The high degree of voting rights fragmentation, resulting from Hera's ownership by more than 100 local municipalities, has historically prevented any major shareholder interference in the company's corporate strategy. This ownership structure has favoured the execution of a balanced financial policy over the years, based on growth through small and medium-sized acquisitions mainly financed through share exchanges and ensured the company's stable dividend policy. Hera's strategy of external growth has created a solid track record of synergy extraction from the acquired entities, which positions the company well to achieve additional synergies in future.

ESG considerations

Hera S.p.A.'s ESG credit impact score is CIS-2

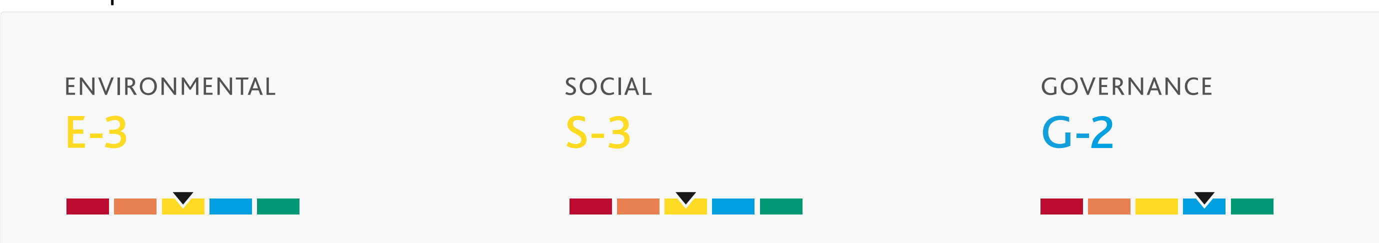
Exhibit 7
ESG credit impact score



Source: Moody's Ratings

Hera´s **CIS-2** indicates that ESG considerations are not material because its rating is constrained by that of the Government of Italy.

Exhibit 8
ESG issuer profile scores



Source: Moody's Ratings

Environmental

Hera's environmental risk is **E-3**, reflecting the exposure of the company's distribution assets to physical climate risks (e.g. water stress). However, the low share of consolidated EBITDA from power generation activities translates in low to neutral exposure to carbon transition risks. In addition, the group has neutral to low risk exposure from water management, waste & pollution and natural capital risks.

Social

We assess Hera's social risk **E-3**, reflecting its exposure to the risk that public concern over environmental, social or affordability issues could lead to adverse regulatory or political intervention, similar to other regulated network operators. We view risks associated with health and safety, human capital and customer relationships as neutral to low.

Governance

Hera's governance risk is **G-2** because of the track record of sound financial and liquidity management as well as the consistent achievement of synergies from consolidation activities. In addition, the assessment reflects management credibility and low to neutral exposure to organization structure risks.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

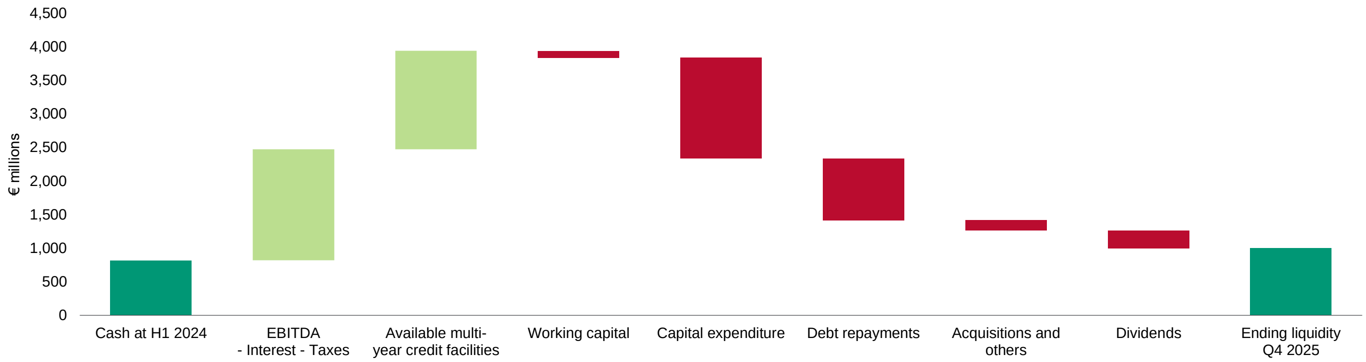
Liquidity analysis

As of June 2024, Hera had good liquidity, backed by around €0.8 billion in cash and cash equivalents and €1.11 billion of undrawn committed credit lines, of which around €0.9 billion are expiring between 2027 and 2028. These lines benefit from the absence of any financial covenant and material adverse change clauses. In addition to the committed credit facilities, Hera has a €460 million term loan available with the European Investment Bank (EIB, Aaa stable) to draw until September 2026, maturing in 16 years.

We expect Hera's cash, available committed lines and internal cash flow generation to be sufficient to cover its liquidity needs until the end of 2025 (including working capital, debt repayments, investments and dividends), as Exhibit 9 shows.

Exhibit 9

We expect Hera's cash availability to cover its liquidity needs
Liquidity as of June 2024

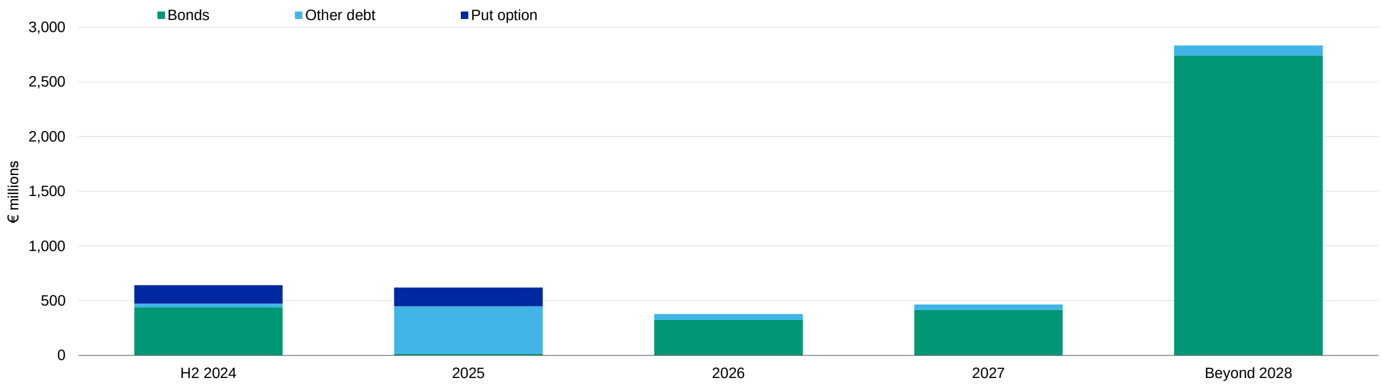


Moody's forecasts are Moody's opinion and do not represent the views of the issuer.
Sources: Company filings and Moody's Ratings

As of June 2024, Hera's reported gross financial debt was around €4.9 billion, with an average maturity of roughly 4.6 years.

Exhibit 10

Hera's reported debt maturity profile as of June 2024



Assuming Ascopiave put option amortisation through 2026.
Source: Company filings

Methodology and scorecard

When assessing Hera's standalone credit profile or Baseline Credit Assessment (BCA), we apply our Unregulated Utilities and Power Companies rating methodology.

Given its public shareholder base, Hera also falls within the scope of our Government-Related Issuers rating methodology. However, the rating does not incorporate currently any uplift to Hera's baa2 BCA, based on our assessment of low support and moderate dependence.

Exhibit 11

Rating factors

Hera S.p.A.

Unregulated Utilities and Unregulated Power Companies Industry	Current FY Dec-23		Moody's 12-18 month forward view	
Factor 1 : Scale (10%)	**Measure**	**Score**	**Measure**	**Score**
a) Scale ($ billions)	Baa	Baa		Baa
Factor 2 : Business Profile (40%)				
a) Market Diversification	Ba	Ba		Ba
b) Hedging and Integration Impact on Cash Flow Predictability	Ba	Ba		Ba
c) Market Framework & Positioning	Baa	Baa		Baa
d) Capital Requirements and Operational Performance	Baa	Baa		Baa
e) Business Mix Impact on Cash Flow Predictability	Aaa	Aaa		Aaa
Factor 3 : Financial Policy (10%)				
a) Financial Policy	Baa	Baa		Baa
Factor 4 : Leverage and Coverage (40%)				
a) (CFO Pre-W/C + Interest) / Interest (3 Year Avg)	10.5x	A	8.5x - 9.5x	A
b) (CFO Pre-W/C) / Net Debt (3 Year Avg)	23.9%	Baa	23.0% - 25.0%	Baa
c) RCF / Net Debt (3 Year Avg)	18.4%	Baa	17.0% - 19.0%	Baa
Rating:				
a) Scorecard-Indicated Outcome		Baa1		Baa1
b) Actual Baseline Credit Assessment				baa2
Government-Related Issuer				**Factor**
a) Baseline Credit Assessment				baa2
b) Government Local Currency Rating				n/a
c) Default Dependence				Moderate
d) Support				Low
e) Actual Rating Assigned				Baa2

All figures and ratios are based on adjusted financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
Moody's forecasts are Moody's opinion and do not represent the views of the issuer.
Sources: Moody's Financial Metrics™ and Moody's Ratings forecasts

Appendix

Exhibit 12
Peer comparison
Hera S.p.A.

(in € millions)	Hera S.p.A. Baa2 Stable FY Dec-21	FY Dec-22	FY Dec-23	ACEA S.p.A. Baa2 Stable FY Dec-21	FY Dec-22	FY Dec-23	A2A S.p.A. Baa2 Stable FY Dec-21	FY Dec-22	FY Dec-23
Revenue	10,555	20,082	14,897	3,816	4,957	4,430	11,352	22,938	14,492
EBITDA	970	991	1,337	1,137	1,189	1,244	1,351	1,420	1,879
Total Assets	14,032	17,119	15,080	10,629	11,339	11,787	18,008	21,367	18,798
Total Debt	4,264	6,416	5,424	5,149	5,407	5,760	5,204	6,999	6,455
Net Debt	3,378	4,473	4,091	4,469	4,847	5,400	4,240	5,040	5,016
FFO / Net Debt	26.8%	19.8%	25.9%	21.5%	19.9%	19.7%	27.5%	24.9%	31.6%
RCF / Net Debt	21.1%	14.9%	20.1%	19.3%	16.9%	17.0%	21.3%	18.9%	25.6%
(FFO + Interest Expense) / Interest Expense	13.0x	11.2x	8.7x	12.4x	11.8x	8.7x	14.6x	12.6x	8.8x
Debt / Book Capitalization	54.6%	62.4%	58.1%	67.2%	66.2%	67.1%	54.7%	61.0%	57.3%

All figures and ratios are based on adjusted financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
Hera and ACEA's figures and ratios do not include the adjustment related to the companies' securitisation of receivables, given the lack of publicly available data.
Source: Moody's Financial Metrics™

Exhibit 13
Moody's-adjusted net debt reconciliation
Hera S.p.A.

(in € millions)	2019	2020	2021	2022	2023
As reported debt	**3,700.6**	**4,234.7**	**4,170.0**	**6,336.4**	**5,347.9**
Pensions	112.0	102.2	93.7	79.4	75.8
Non-Standard Adjustments	(13.6)	-	-	-	-
Moody's-adjusted debt	**3,799.0**	**4,336.9**	**4,263.7**	**6,415.8**	**5,423.7**
Cash & Cash Equivalents	(364.1)	(987.1)	(885.6)	(1,942.4)	(1,332.8)
Moody's-adjusted net debt	**3,434.9**	**3,349.8**	**3,378.1**	**4,473.4**	**4,090.9**

All figures and ratios are based on adjusted financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
Periods are financial year-end unless indicated.
All figures and ratios shown do not include the adjustment related to Hera's securitisation of receivables as the company does not disclose such amounts.
Source: Moody's Financial Metrics™

Exhibit 14
Moody's-adjusted funds from operations reconciliation
Hera S.p.A.

(in € millions)	2019	2020	2021	2022	2023
As reported funds from operations (FFO)	**871.5**	**853.6**	**997.6**	**963.3**	**1,343.5**
Alignment FFO	(46.8)	1.7	2.9	55.6	(124.2)
Non-Standard Adjustments	(80.5)	(83.4)	(94.4)	(133.9)	(158.0)
Moody's-adjusted funds from operations (FFO)	**744.2**	**771.9**	**906.1**	**885.0**	**1,061.3**

All figures and ratios are based on adjusted financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
Periods are financial year-end unless indicated.
Source: Moody's Financial Metrics™

Exhibit 15

Overview on selected historical Moody's-adjusted financial data

Hera S.p.A.

(in € millions)	2019	2020	2021	2022	2023
INCOME STATEMENT					
Revenue	6,913	7,079	10,555	20,082	14,897
EBITDA	1,095	991	970	991	1,337
EBIT	666	534	500	512	811
Interest Expense	104	82	75	87	138
Net income	411	316	347	268	454
BALANCE SHEET					
Net Property Plant and Equipment	2,087	2,020	2,041	2,067	2,148
Total Assets	10,322	11,035	14,032	17,119	15,080
Total Debt	3,799	4,337	4,264	6,416	5,424
Cash & Cash Equivalents	364	987	886	1,942	1,333
Net Debt	3,435	3,350	3,378	4,473	4,091
Total Liabilities	7,514	8,074	10,831	13,720	11,642
CASH FLOW					
Funds from Operations (FFO)	744	772	906	885	1,061
Cash Flow From Operations (CFO)	730	891	1,045	36	1,573
Dividends	162	163	193	220	239
Retained Cash Flow (RCF)	583	609	713	666	822
Capital Expenditures	(552)	(529)	(611)	(753)	(838)
Free Cash Flow (FCF)	16	200	241	(937)	495
INTEREST COVERAGE					
(FFO + Interest Expense) / Interest Expense	8.2x	10.4x	13.0x	11.2x	8.7x
LEVERAGE					
FFO / Net Debt	21.7%	23.0%	26.8%	19.8%	25.9%
RCF / Net Debt	17.0%	18.2%	21.1%	14.9%	20.1%
Debt / EBITDA	3.5x	4.4x	4.4x	6.5x	4.1x
Net Debt / EBITDA	3.1x	3.4x	3.5x	4.5x	3.1x

All figures and ratios are based on adjusted financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
Periods are financial year-end unless indicated.
All figures and ratios shown do not include the adjustment related to Hera's securitisation of receivables as the company does not disclose such amounts.
Source: Moody's Financial Metrics™

Ratings

Exhibit 16

Category	Moody's Rating
HERA S.P.A.	
Outlook	Stable
Issuer Rating -Dom Curr	Baa2
Senior Unsecured MTN -Dom Curr	(P)Baa2

Source: Moody's Ratings

Moody's related publications

- Lower power prices may require tough choices, if sustained, April 2024
- Electricity Markets – Europe: Supply-demand imbalance to ease, but prices to remain above historical levels, 5 December 2023
- Regulatory update for energy infrastructure assets allows for higher return on capital, 5 December 2023
- Moody's changes outlook to stable on eight Italian utility issuers, 21 November 2023
- Regulated electric and gas networks - Europe: 2024 Outlook - Stable as higher interest rates feed through to returns, 13 November 2023
- Unregulated electric and gas utilities - Europe: 2024 Outlook - Stable amid manageable market challenges, 13 November 2023
- Move to totex regulation likely credit neutral, with implementation gradual, 22 June 2023

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.

Endnotes

1 With resolution 637/2023/R/id of December 2023.

2 Resolution 476/2023/R/id.

3 Equal to 3.39% for gas distribution, between 0 and 0.5% for electricity distribution.

4 ARERA resolutions 163/2023 and 497/2023 outline the general principles applicable over 2024-31 for all affected infrastructure sectors, as well as the determinations to be applied during the first phase of ROSS.

5 From 2024, the X-factor equals to 0.5% under the high-potential incentive scheme and 0 under the low-potential incentive scheme; under the previous framework, the X-factor was set at 1.3% for 2020-23.

6 ARERA resolution 556/2023/R/COM, published on 29 November 2023.

7 Resolution 363/2021/R/rif.

8 Resolution 68/2022/R/rif.

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