MOODY'S RATINGS

Rating Action: Moody's Ratings changes outlook to positive on three Italian utility issuers

28 May 2025

Paris, May 28, 2025 -- Moody's Ratings (Moody's) has today affirmed the ratings and changed the outlook to positive from stable on the following Italian utility issuers: A2A S.p.A. (A2A), ACEA S.p.A. (ACEA), Hera S.p.A. (Hera).

Today's rating action follows the outlook change to positive from stable on the Italian Government. For further information on the sovereign rating action, please refer to the press release dated 23 May 2025 https://ratings.moodys.com/ratings-news/443689.

Please click on this link https://www.moodys.com/viewresearchdoc.aspx?docid=PBC_ARFTL507485 for the List of Affected Credit Ratings. This list is an integral part of this Press Release and identifies each affected issuer.

RATINGS RATIONALE

OVERVIEW OF RATING AFFIRMATIONS WITH CHANGE IN OUTLOOK TO POSITIVE FROM STABLE:

- A2A S.p.A.: The outlook has been changed to positive from stable. Concurrently, we have affirmed the Baa2 long-term issuer rating, Baa2 senior unsecured ratings, the (P)Baa2 rating of its senior unsecured EMTN program, the Ba1 hybrid note subordinated rating and the baa2 Baseline Credit Assessment (BCA).

- ACEA S.p.A.: The outlook has been changed to positive from stable. Concurrently, we have affirmed the Baa2 long-term issuer rating and senior unsecured ratings, the Baseline Credit Assessment (BCA) of baa2, as well as the provisional (P)Baa2 rating on ACEA´s EUR5 billion EMTN program.

- Hera S.p.A.: The outlook has been changed to positive from stable. Concurrently, we have affirmed the Baa2 long-term issuer rating and senior unsecured ratings, the Baseline Credit Assessment (BCA) of baa2 as well as the provisional (P)Baa2 rating on Hera´s EUR5 billion EMTN program.

RATIONALE FOR OUTLOOK CHANGE TO POSITIVE AND AFFIRMATION OF THE RATING OF A2A:

The change in outlook on A2A to positive from stable reflects the company's linkages with the sovereign, given that most of its earnings are generated in Italy, and the improved fiscal outlook and expected improvement in Italy's economic resilience, reflected by the positive outlook on the Government of Italy. This also captures the sound operating performance and solid financial flexibility, illustrated by for example, by a Funds from operations (FFO)/net debt ratio consistently ranging from 23.1%-28.6% over the last five years (2020-24) and our expectation that the ratio will likely exceed 26% over 2025-27.

The affirmation of the rating recognizes the company's well diversified business mix, benefiting from its vertical integration in the energy business; lower-risk and relatively stable Italian regulated network earnings; solid operational and financial performance; sound liquidity; and a financial policy which balances the interests of its shareholders and creditors. This also recognizes the fact that A2A is the fourth-largest electricity generator in Italy (delivering 12TWh of output in 2024, excluding WTE). These factors are balanced by the group's exposure to the volatile power prices in Italy, although this risk is mitigated by a diversified power generation technology mix and the group's hedging policy; and the exposure of A2A's waste activities to the cyclical macroeconomic environment.

A2A is a Government-related Issuer given its partial ownership by the municipalities of Milan (City of Milan, Baa3 positive) and Brescia. However, A2A's Baa2 rating does not incorporate any uplift from the baa2 BCA for potential Government support under our Government-related Issuers methodology because the company's BCA is higher than the rating of the City of Milan and the Government of Italy.

RATIONALE FOR OUTLOOK CHANGE TO POSITIVE AND AFFIRMATION OF THE RATING OF ACEA:

The change in outlook to positive from stable reflects the company's linkages with the sovereign, given that most of its earnings are generated in Italy, and the improved fiscal outlook and expected improvement in Italy's economic resilience, reflected by the positive outlook on the Government of Italy. It also reflects ACEA's solid financial profile illustrated for example by FFO to net debt of 19.4% on average in the past 3 years, and the potential for this ratio to be above 20% over 2025-27, which could in turn support a higher rating absent any constraint from the sovereign credit quality.

The affirmation of ACEA´s ratings recognizes the company's diversified business mix and its portfolio of regulated activities, which accounted for around 81% of consolidated EBITDA in 2024. These activities, characterized by monopolistic features and well-established regulatory frameworks, provide a good degree of predictability and visibility into the company´s earnings. These factors are balanced by the group's exposure through its unregulated businesses (around 19% of EBITDA in 2024) to the cyclical macroeconomic environment and competition; and the risk of M&A activity that could absorb the existing financial flexibility.

Given ACEA's 51% public shareholder base, we consider ACEA to be a Government-related Issuer. However, the Baa2 rating does not incorporate any uplift from ACEA's BCA of baa2, based on our assessment of moderate support and high dependence.

RATIONALE FOR OUTLOOK CHANGE TO POSITIVE AND AFFIRMATION OF THE RATING OF HERA:

The change in outlook to positive from stable reflects the company's linkages with the sovereign, given that all its earnings are generated in Italy, and the improved fiscal outlook and expected improvement in Italy's economic resilience, reflected by the positive outlook on the Government of Italy. It also recognizes the company's solid operating performance and financial profile, illustrated by for example by the company's Moody's-adjusted ratio of FFO to net debt of 24.2% on average over the last five years (2020-24), and our expectation that this ratio will remain in the low-twenties in percentage terms over 2025-27, which would support a higher rating absent any constraint from the sovereign credit quality.

The affirmation of Hera´s ratings reflects the company´s diversified business mix and its portfolio of regulated and quasi-regulated activities, which accounted for around 32% of the consolidated EBITDA in 2024, with limited price and volume exposure, underpinned by supportive and transparent regulatory frameworks; the contribution from quasi-regulated activities (5% of EBITDA in FY2024), which support cash flow stability; Hera´s strategy of growth through small and medium-scale acquisitions mainly funded with exchange of shares; and its solid liquidity. These factors are balanced by the company's exposure to the macroeconomic cycle and competitive pressure through its electricity and gas supply businesses and waste treatment (around 63% of EBITDA in FY2024) and the exposure, although limited, of Hera's power generation and waste businesses to volatile power prices in Italy.

Given Hera's 46% public shareholder base, we consider Hera to be a Government-related Issuer.

However, the Baa2 rating does not incorporate any uplift from Hera's BCA of baa2, based on our assessment of low support and moderate dependence.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

A2A S.p.A.

Upward rating pressure on A2A's ratings could develop if the company's financial profile were likely to evidence FFO/net debt in the high 20s in percentage terms and retained cash flow (RCF)/net debt in the mid 20s in percentage terms, both on a sustained basis, while maintaining solid liquidity and a diversified lending base. Any rating upgrade would be contingent on an upgrade of the Italian Government rating.

A2A's ratings could be downgraded if a weakening in the company's financial profile were likely to result in FFO/net debt remaining below the low 20s in percentage terms and RCF/net debt below the high teens in percentage terms. Downward rating pressure could also arise as a result of a downward movement in the Italian Government's rating. Downward rating pressure could also arise if any adverse fiscal measures are taken or there is adverse political interference that could hurt A2A, or if the company's business risk profile were to deteriorate significantly.

ACEA S.p.A.

An upgrade of ACEA's ratings would be contingent upon an upgrade of the Italian sovereign rating. Any upgrade would also require ACEA to demonstrate a strong financial profile, such that FFO/net debt remains in the low 20s in percentage terms, while maintaining good liquidity.

ACEA's ratings could be downgraded following a downgrade of the Italian sovereign rating. Downward pressure on the rating could also result from a structural deterioration in ACEA's financial profile, as illustrated by, for example, its FFO/net debt falling below the mid-teens in percentage terms; or any adverse regulatory development, discriminatory fiscal measures, or adverse political interference from the Government or the Municipality of Rome.

Hera S.p.A.

An upgrade of Hera's ratings would be conditional upon an upgrade of the Italian sovereign rating. Any potential upgrade would also be contingent upon Hera maintaining its current underlying credit profile, reflected in FFO/net debt above 20% and RCF/net debt above the mid-teens in percentage terms, coupled with good liquidity.

Hera's ratings could be downgraded following a downgrade of the Italian sovereign rating; a structural deterioration in Hera´s own credit profile as might be illustrated, for example, by a weakening of its financial ratios, including FFO/net debt below the mid-teens or RCF/net debt below the low-double digits, both in percentage terms; or a deterioration in Hera's business risk profile as a result of its growth strategy, with no offsetting strengthening in its credit metrics.

The principal methodologies used in rating Hera S.p.A. and A2A S.p.A. were Unregulated Utilities and Unregulated Power Companies published in December 2023 and available at https://ratings.moodys.com/rmc-documents/412151, and Government-related Issuers published in May 2025 and available at https://ratings.moodys.com/rmc-documents/443641. The principal methodologies used in rating ACEA S.p.A. were Regulated Water Utilities published in August 2023 and available at https://ratings.moodys.com/rmc-documents/406788, and Government-related Issuers published in May 2025 and available at https://ratings.moodys.com/rmc-documents/443641. Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of these methodologies.

REGULATORY DISCLOSURES

The List of Affected Credit Ratings announced here are all solicited credit ratings. For additional information, please refer to Moody's Policy for Designating and Assigning Unsolicited Credit Ratings available on its website https://ratings.moodys.com. Additionally, the List of Affected Credit Ratings includes additional disclosures that vary with regard to some of the ratings.

Please click on this link https://www.moodys.com/viewresearchdoc.aspx?docid=PBC_ARFTL507485 for the List of Affected Credit Ratings. This list is an integral part of this Press Release and provides, for each of the credit ratings covered, Moody's disclosures on the following items:

• EU Endorsement Status

• UK Endorsement Status

• Rating Solicitation

• Issuer Participation

• Participation: Access to Management

• Participation: Access to Internal Documents

• Lead Analyst

• Releasing Office

• Person Approving the Credit Rating

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on https://ratings.moodys.com/rating-definitions.

For any affected securities or rated entities receiving direct credit support/credit substitution from another entity or entities subject to a credit rating action (the supporting entity), and whose ratings may change as a result of a credit rating action as to the supporting entity, the associated regulatory disclosures will relate to the supporting entity. Exceptions to this approach may be applicable in certain jurisdictions.

For ratings issued on a program, series, category/class of debt or security, certain regulatory disclosures applicable to each rating of a subsequently issued bond or note of the same series, category/class of debt, or security, or pursuant to a program for which the ratings are derived exclusively from existing ratings, in accordance with Moody's rating practices, can be found in the most recent Credit Rating Announcement related to the same class of Credit Rating.

For provisional ratings, the Credit Rating 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.

Moody's does not always publish a separate Credit Rating Announcement for each Credit Rating assigned in the Anticipated Ratings Process or Subsequent Ratings Process.

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

The below contact information is provided for information purposes only. For disclosures on the lead rating analyst and the Moody's legal entity that issued the rating, please see the issuer/deal page on https://ratings.moodys.com for each of the ratings covered.

The relevant office for each credit rating is identified in "Debt/deal box" on the Ratings tab in the Debt/Deal List section of each issuer/entity page of the website.

Please see https://ratings.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 issuer/deal page on https://ratings.moodys.com for additional regulatory disclosures for each credit rating.

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