



Press Release

## **MOODY'S LOWERS RATING TO 'Baa1' AFTER DOWNGRADE OF ITALY**

Rome, 17 July 2012 – Following its downgrade of Italian sovereign debt from 'A3' to 'Baa2' on 13 July, Moody's has lowered Atlantia's rating from 'A3' to 'Baa1' with a negative outlook. The downgrade and negative outlook reflect an increase in the Company's country risk exposure, given that it operates primarily in the Italian market. The agency also stressed that the country's credit rating remains one notch above the rating assigned to Italy, as Atlantia benefits from having adequate liquidity and diversified sources of funding, in addition to a growing international footprint.

The fully text of Moody's announcement is provided below.

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## **Rating Action: Moody's takes action on certain Italian utility and infrastructure companies following sovereign downgrade**

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Global Credit Research - 16 Jul 2012

London, 16 July 2012 -- Moody's Investors Service has today announced multiple rating actions on the following Italian utility and infrastructure issuers: Atlantia S.p.A., Snam S.p.A., Terna S.p.A., SIAS -- Società Iniziative Autostradali e Servizi S.p.A., Acea S.p.A., Hera S.p.A. and Compagnia Valdostana delle Acque S.p.A.

Today's rating action on these issuers follows the weakening of the Italian government's creditworthiness, as captured by Moody's downgrade of Italy's government bond ratings to Baa2, on 13 July 2012. For more details on the rationale for the sovereign downgrade, please refer to the press release [http://www.moody's.com/research/Moodys-downgrades-Italys-government-bond-rating-to-Baa2-from-A3--PR\\_250567](http://www.moody's.com/research/Moodys-downgrades-Italys-government-bond-rating-to-Baa2-from-A3--PR_250567).

The ratings of Enel and its Spanish subsidiary Endesa, Edison S.p.A., A2A S.p.A. and Aeroporti di Roma S.p.A. and its subsidiary Romulus Finance Srl are unaffected by the change in sovereign creditworthiness. An overview of unaffected issuers is provided later on in this press release.

### -- OVERVIEW OF AFFECTED ISSUERS:

- ATLANTIA S.P.A.: The senior unsecured debt ratings and the EUR10 billion medium-term note (EMTN) programme rating have been downgraded to Baa1/(P)Baa1 from A3/(P)A3, respectively. The outlook on the ratings is negative.

- SNAM S.P.A.: The Baa1 issuer rating has been placed on review for downgrade, as have the provisional (P)Baa1 ratings assigned SNAM's: (1) EUR8 billion EMTN programme, (2) EUR6 billion bridge-to-bond facility, (3) EUR2 billion revolving credit facility, (4) EUR1.5 billion revolving credit facility, and (5) EUR1.5 billion term loan facility.

- TERNA S.P.A.: The issuer rating and the senior unsecured debt ratings have been downgraded to Baa1 from A3, while the EUR5 billion EMTN programme has been downgraded to (P)Baa1 from (P)A3. The outlook on the ratings is negative. Terna's short-term Prime-2 rating is unchanged.

- SIAS - SOCIETÀ INIZIATIVE AUTOSTRADALI E SERVIZI S.P.A.: Moody's has changed to negative from stable the outlook on SIAS's Baa2 senior secured rating and (P)Baa3 senior unsecured rating.

- ACEA S.P.A.: The issuer rating has been downgraded to Baa2 from Baa1. The rating remains on review for further downgrade.

- HERA S.P.A.: The Baa1 issuer rating and senior unsecured debt ratings have been placed on review for downgrade, as has the (P)Baa1 rating on Hera's EUR1.5 billion EMTN programme.

- COMPAGNIA VALDOSTANA DELLE ACQUE S.P.A.: The issuer rating has been downgraded to Baa1 from A3. The outlook on the rating is negative.

### RATINGS RATIONALE

The above actions were triggered by the downgrade of Italy's government bond ratings. Given the multiple channels of contagion that exist between sovereign and corporate issuers, it is challenging for even strong utilities and infrastructure companies with defensive characteristics to achieve a rating that is more than one or two notches higher than that of the sovereign rating in which they are domiciled. For more details, please refer to Moody's February 2012 Rating Implementation Guidance "How Sovereign Credit Quality May Affect Other Ratings."

#### - ATLANTIA

The downgrade of Atlantia's ratings to Baa1 from A3 positions the company one notch above the Italian sovereign's rating. As Italy's largest toll roads operator, Atlantia's earnings are predominantly generated domestically, which in

turn means that the company cannot fully insulate itself from the macroeconomic risks associated with a weakened sovereign, as indicated by the recent deteriorating traffic trends recorded on Atlantia's Italian network (-8.5% in Q1 2012). At the same time, the one-notch rating differential with the sovereign is supported by (1) Atlantia's comfortable liquidity profile and diversified debt structure, which mitigates the company's vulnerability to potential tensions in the debt markets for Italian issuers over the short to medium term; and (2) the expected increase in its exposure to international operations. However, this exposure is partially mitigated by Moody's expectation that the contribution to Atlantia's cash flows from its foreign activities will be very limited over the medium term, and that some of the company's international subsidiaries are characterised by the presence of significant minority interests. More generally, in addition to a continued strong liquidity profile, Atlantia's rating positioning vs. the sovereign rating is based on the expectation of regulatory stability in this sector in Italy and that the company will not be subject to political interference and/or discriminatory fiscal measures. Evidence of significant exposure to these risks beyond current expectations could result in negative pressure on Atlantia's rating.

The negative outlook on Atlantia's rating is in line with the outlook on the sovereign rating. This reflects Atlantia's continuing exposure to the deteriorating economic situation within the country and the potential pressures that this could exert on the company's financial and business risk profile. Any downward migration in the Italian sovereign rating would likely result in a corresponding adjustment of Atlantia's rating. Given the linkages between Atlantia's rating and that of the government, an upward move in the sovereign rating would be required before Atlantia would become eligible for a rating upgrade.

#### - SNAM

Moody's initiation of a review for downgrade for SNAM's Baa1 ratings reflects the company's close linkages with the sovereign, in light of the fact that all its earnings are generated in Italy. Whilst recognising the company's strategic position in the transmission, distribution, storage and regasification of natural gas in Italy, its important role in executing on the country's energy plan and its fully regulated profile, Moody's also notes the relatively short average maturity of SNAM's debt and its sizeable refinancing needs. In Moody's view, these factors make the company particularly exposed to the potentially more challenging market conditions associated with the deterioration of the sovereign and macroeconomic environment in Italy, and thus particularly vulnerable to increasing funding costs and tensions related to access to debt markets for Italian issuers. In light of these considerations, Moody's had previously indicated that SNAM's rating was unlikely to be positioned above the sovereign rating in the event of further downward pressure on the latter. However, in this context, the rating agency notes the progress made by the company in the refinancing of its debt maturities, following the recent cumulative issuance of EUR2 billion of bonds.

As part of its review, Moody's will consider whether SNAM's ratings could be confirmed at the current level and therefore potentially be positioned above that of the sovereign. This would depend on any potential near-term debt issuance by SNAM, aimed at further extending its debt maturity profile significantly, and thereby mitigating its sizeable refinancing needs over the medium term. Moody's could downgrade SNAM's rating if the company were unable to improve its liquidity profile and extend the average maturity of its debt.

#### -TERNA

The downgrade of Terna's rating to Baa1 positions the company one notch above the sovereign, in line with Moody's previous guidance for the company. The rating differential reflects Terna's (1) strategic position as owner and operator of Italy's electricity transmission assets; (2) focus on regulated activities and its important role in delivering the country's energy plan; (3) comfortable liquidity profile; (4) diversified debt structure; and (5) moderate debt maturities over the medium term. However, at the same time, the rating also reflects Terna's close linkages with the sovereign, given the fact that all its earnings are generated in Italy, and the company's exposure to financial and macroeconomic uncertainties in the country. In light of these considerations, Terna's rating differential with the sovereign is limited to one notch. More generally, in addition to a continued strong liquidity profile, Terna's rating positioning vs. the sovereign rating is based on the expectation of regulatory stability in the sector in Italy and that the company will not be subject to political interference and/or discriminatory fiscal measures. Evidence of a significant exposure to these risks beyond current expectations could result in negative pressure on Terna's rating.

The negative outlook on Terna's rating is in line with that of the sovereign, reflecting the company's continuing exposure to the deteriorating economic situation in the country and the potential pressures that this could exert on the company's financial and business risk profile. Any downward move in the Italian sovereign rating would likely result in a corresponding adjustment of Terna's rating. Given the linkages between Terna's rating and that of the government, an upward move in the sovereign rating would be required before Terna would become eligible for a rating upgrade.

#### -SIAS

The change in the outlook on SIAS's Baa2 senior secured ratings and (P)Baa3 senior unsecured ratings to negative from stable reflects the general vulnerability of the company to the macroeconomic risks associated with a weaker sovereign, as indicated by the recent deteriorating traffic trends recorded on SIAS's Italian toll roads network (-7.3% in Q1 2012). SIAS's consolidated credit quality is currently positioned at the same level as the sovereign rating. Moody's believes that the company's rating could potentially exceed that of the Italian sovereign in the event that moderate downward pressure were to materialise on the latter, particularly in light of SIAS's solid liquidity profile and limited debt refinancing requirements over the medium term. However, the negative outlook, which is in line with that of the sovereign, reflects the potential transition risk associated with SIAS's current rating positioning, in the context of the event risk characterising the Italian rating and its vulnerability to economic and financial shocks as a result of the euro area crisis. Moody's notes that, going forward, a key factor in the context of any potential reassessment of SIAS's rating positioning will be clarity around the company's use of material accumulated cash balances, partially deriving from the recent disposal of its international investments. Negative pressure on SIAS's rating would develop in the event of a further material weakening of the sovereign and macroeconomic environment in Italy. Given the linkages between SIAS's rating and that of the government, a stabilisation or an upward move in the sovereign rating would be required before SIAS would become eligible for a rating upgrade.

#### -ACEA

The downgrade of Acea's rating to Baa2, in line with the sovereign rating, reflects the majority ownership by the city of Rome and the fact that its earnings are entirely generated in Italy. The downgrade of Acea's rating also reflects the negative evolution of the company's financial performance and the recent deterioration in its key credit metrics. These factors confirm the company's exposure to the general macroeconomic pressures associated with a weaker sovereign environment.

More specifically, despite the largely regulated nature of Acea's earnings, these linkages have resulted in a negative working capital evolution, mainly related to the company's exposure to overdue receivables vs. the public sector and the city of Rome. The company's negative working capital trends have been further exacerbated by the recent delays in invoicing electricity clients due to problems with the introduction of a new billing system. In addition, Acea's financial performance continues to be negatively affected by the uncertainties surrounding the recovery of outstanding amounts in respect of two of its water subsidiaries, mainly as a result of their persistent inability to reach an agreement in respect of applicable tariff increases. In Moody's view, the negative macroeconomic trends affecting Acea's operating environment could constrain the company's ability to reverse the negative working capital trends and prevent it from strengthening its credit metrics, at a time when the company has also experienced the departure of members of its management team. In addition, with regard to Acea's liquidity position, Moody's notes that the company is in part reliant on uncommitted lines for the coverage of working capital needs. This could potentially result in the company coming under additional pressure in the context of the more challenging funding environment.

As part of its review, Moody's will take into account any measure implemented by the company to address the recent negative developments and strengthen its financial and liquidity profile. Moody's could downgrade Acea's rating in the event that the company makes no material progress in executing measures to support the stabilisation of its financial and liquidity profile.

#### -HERA

Moody's initiation of a review for downgrade for Hera's Baa1 rating reflects the company's close linkages with the sovereign, given that all its earnings are generated in Italy and its consequent exposure to the macroeconomic risks associated with a weaker sovereign. Notwithstanding the regulated nature of a material portion of Hera's earnings, Moody's notes that the company exhibits elements of cyclicity, particularly in the context of its presence in the waste segment, its exposure to potentially adverse working capital trends and in light of its exposure to the public sector. However, Moody's also notes Hera's good liquidity arrangements and moderate debt maturity profile.

As part of its review, Moody's will consider the potential for Hera's rating to be positioned above that of the sovereign. In doing so, the rating agency will take into account the company's ability to partially delink from the sovereign risk through the stabilisation of its financial profile and the maintenance of strong liquidity arrangements. Moody's could downgrade the rating if the rating agency concludes that Hera's financial and liquidity profile, under stressed scenarios, does not enable the company to partially delink itself from the sovereign risk. As part of its review, Moody's will also consider any potential impact on Hera's business and financial risk profile as a result of the

company's recently announced intention to consider a merger with the multi-utility Acegas-Aps.

-CVA

The downgrade of CVA's rating to Baa1 reflects the company's vulnerability to the macroeconomic risks associated with a weaker sovereign, particularly in light of its relatively small size, its niche position in the Italian electricity market and the fact that all its earnings are generated in Italy. However, the fact that CVA's rating is one notch above that of the sovereign mainly reflects CVA's material cash availability and additional flexibility deriving from investments of its excess liquidity, in the context of a predominantly amortising long term debt profile which would partially insulate the company from potential tensions in the debt markets for Italian issuers over the medium term.

The negative outlook assigned to CVA's rating is in line with the outlook on the sovereign rating. This reflects CVA's continuing exposure to the deteriorating economic situation in Italy and the potential pressures that this could exert on the company's financial and business risk profile. Any downward move in the Italian sovereign rating would likely result in a corresponding adjustment of CVA's rating. Given the linkages between CVA's rating and that of the government, an upward move in the sovereign rating would be required before CVA would become eligible for a rating upgrade.

#### OVERVIEW OF UNAFFECTED ISSUERS

- ENEL AND ITS SPANISH SUBSIDIARY ENDESA: The senior unsecured Baa1 ratings of Enel S.p.A. and its guaranteed subsidiaries, the Baa1 ratings of Endesa's guaranteed subsidiaries and the Prime-2 ratings of Enel Finance International N.V., Endesa S.A. and International Endesa B.V remain on review for downgrade, where they were placed following the downgrade of the Government of Spain to Baa3 on 13 June.

- EDISON S.P.A.: The Baa3 issuer and senior unsecured ratings and their negative outlook remain unchanged.

- A2A S.P.A.: The Baa2 issuer and senior unsecured debt ratings remain on review for downgrade, where they were placed on 31 May.

- AEROPORTI DI ROMA S.P.A. AND ITS AFFILIATE ROMULUS FINANCE SRL: The Ba2 debt ratings and their positive outlook remain unchanged.

Moody's will comment separately on the ratings of Acquedotto Pugliese S.p.A. as the company's ratings incorporate some uplift for support from its sub-sovereign owner (Region of Puglia).

#### PRINCIPAL METHODOLOGIES

The principal methodology used in rating Atlantia and SIAS was the Operational Toll Roads rating methodology, published in December 2006.

The principal methodology used in rating Terna and SNAM was the Regulated Electric and Gas Networks rating methodology, published in August 2009.

The principal methodology used in rating CVA was the Unregulated Utilities and Power Companies rating methodology, published in August 2009.

Please see the Credit Policy page on [www.moody.com](http://www.moody.com) for a copy of these methodologies.

Moody's determined Acea's and Hera's ratings by evaluating factors that it considers relevant to the credit profile of the issuers, such as their (1) business risk and competitive position compared with others within the industry; (2) capital structure and financial risk; (3) projected performance over the short to medium term; and (4) management's track record and tolerance for risk. Moody's compared these attributes against other issuers both within and outside Acea's and Hera's core industry, and believes that the ratings of the two companies are comparable to those of other issuers with similar credit risk.

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