

Rating object	Rating information	
Hera S.p.A. Creditreform ID: 400981217 Incorporation: 2002 Based in: Bologna, Italy Main (Industry): Utilities CEO: Stefano Venier	Corporate Issuer Rating: BBB / stable	Type: Initial rating Unsolicited Public rating
	LT LC Senior Unsecured Issues: BBB / stable	Other: n.r.
	Rating date: 29 March 2022 Monitoring until: withdrawal of the rating Rating methodology: CRA "Corporate Ratings" CRA "Non-Financial Corporate Issue Ratings" CRA "Government Related Companies" CRA "Rating Criteria and Definitions" Rating history: www.creditreform-rating.de	
<u>Rating objects:</u> Long-term Corporate Issuer Rating: Hera S.p.A Long-term Local Currency (LT LC) Senior Unsecured Issues		

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Summary

Company

Hera S.p.A (hereafter referred as "Hera" or "the Company"), headquartered in Bologna, Italy, was founded in November 2002 following the merger of several multi-utility companies operating in Italy's northeastern region. Hera and its subsidiaries operate mainly in the distribution and sale of electricity and gas (ranked among the top five national operators), waste management (the largest operator in Italy), and provide integrated water services, including collection, drinking water purification and water distribution (between top two national operators). In 2021, the Company generated net revenues of EUR 8,597 million with reported EBITDA margin of 14%.

Rating result

The unsolicited corporate issuer rating of **BBB** attests Hera a highly satisfactory level of creditworthiness and a low-to-medium default risk. Key factors included in the ratings are the Company's integrated and diversified business model as well as its strong presence in the North-Eastern Italy, a more populated and higher-income region. An additional positive consideration is the systemic relevance of Hera's activities and its stable cash flow generation, as nearly half of its operations are regulated and somewhat insulated from market volatility. Hera's industry expertise is also a supporting factor for the ratings, which has enabled it to achieve continuous operating earnings growth throughout its history, both through organic investments and M&A transactions. Hera's conservative financial policies and solid liquidity profile also weigh positively on the ratings.

On the other hand, negative considerations factored into the ratings are Hera's geographic concentration, as all revenues are generated domestically, leaving it highly exposed to Italy's macroeconomic and political conditions. Additionally, Hera's investment needs will increase in the coming years in view of the sector's renewable transition, which could temporarily exert negative pressure on its credit metrics. Other negative factors are industry-related risks heightened by geopolitical tension between Russia-Ukraine and high volatility in electricity and gas prices.

Finally, Hera's ratings are also constrained by the unsolicited sovereign rating of the Italian Republic (CRA: **BBB-** / **stable** as of February 11, 2022). Based on Hera's standalone credit quality, the ratings could exceed the sovereign rating of Italy by up to two notches; nevertheless, we have assigned an uplift by just one notch given that its public shareholding base is composed of municipalities within northeastern Italy.

Outlook

The outlook for the next 12 months is stable. This represents our view that Hera will be able to sustain its overall stable business performance despite current market turbulences and higher volatility. The outlook on Hera's ratings also mirrors the outlook for the unsolicited sovereign rating of the Italian Republic. Should the economic impacts from the Russia-Ukraine conflict intensify and more severely affect Hera's operations, or if there is any change in the outlook of the Italian Republic, an adjustment on the Company's outlook will be considered.

Relevant rating factors

Table 1: Financials I Source: Hera S.p.A. Annual Report 2020, standardized by CRA

Hera S.p.A. Selected key figures of the financial statement analysis Basis: Annual accounts and report of 31.12. (IFRS, etc.)	CRA standardized figures ¹	
	2019	2020
Sales (million EUR)	6,911	7,054
EBITDA (million EUR)	1,090	1,129
EBIT (million EUR)	654	551
EAT (million EUR)	402	323
EAT after transfer (million EUR)	386	303
Total assets (million EUR)	9,531	10,196
Equity ratio (%)	26.95	26.32
Capital lock-up period (days)	73.51	77.49
Short-term capital lock-up (%)	12.82	16.07
Net total debt / EBITDA adj. (Factor)	5.98	5.65
Ratio of interest expenses to total debt (%)	3.56	2.64
Return on investment (%)	15.36	12.29

General rating factors

- + Leading position in the north-eastern regions of Italy and diversified service offering
 - + Stable cash flow generation, supported by a meaningful share of regulated activities
 - + Defensive business model with regional monopoly ensured through concession agreements
 - + Successful strategy execution, evidenced by two decade track record of steady growth in operating earnings
 - + Conservative financial policies, with prudent management of debt and liquidity
-
- Geographic concentration, as all revenues are generated domestically
 - High exposure to Italy's macroeconomic and political conditions
 - Increasing competition in the energy and waste management segments
 - Heightened risks amid industry shift towards renewables
 - Constrained by the sovereign rating of the Italian Republic
 - Subject to volatility in energy price

¹ For analytical purposes, CRA adjusted the original values in the financial statements in the context of its financial ratio analysis. For example, when calculating the analytical equity ratio, deferred tax assets, goodwill (entirely or partly), and internally generated intangible assets are subtracted from the original equity, whilst deferred tax liabilities are added. Net total debt considers all balance sheet liabilities. Therefore, the key financial figures shown often deviate from the original values of the company.

Reference:

The relevant rating factors (key drivers) mentioned in this section, are predominantly based on internal analyses, evaluations of the rating process, the derived valuations of the analysts participating in the rating and, if applicable, other rating committee members. The fundamental external sources used, are specified in the section "Regulatory requirements" and "Rules on the presentation of credit ratings and rating outlooks".

Excerpts from the financial key figures analysis:

- + Very positive results during 2021
- + Improved capital structure through recent liability management
- + Leverage reduction and solid liquidity profile

- Higher capex in the years ahead
- Russia-Ukraine conflict heightens gas supply disruption risks
- Increased shareholder remuneration

General rating factors summarize the key issues that – according to the analysts as per the date of the rating – have a significant or long-term impact on the rating, whether positive (+) or negative (-).

Current rating factors

Current rating factors are the key factors that, in addition to the underlying rating factors, have an impact on the current rating.

- + Very positive results during 2021, with revenues increasing by 49% year-over-year (yoy)
- + Liability management initiatives in 2021 reduced cost of debt and improved liquidity profile
- + Leverage reduction in 2021, despite continued growth through M&A activities
- + Expansion through new tenders

- Profitability has been on a downward trend due to higher trading activities
- Russia-Ukraine conflict heightening gas supply disruption risks
- Increased competition in the waste and energy sectors

Prospective rating factors are factors and possible events which – according to the analysts as of the date of the rating – would most likely have a stabilizing or positive effect (+) or a weakening or negative effect (-) on future ratings, if they occurred. This is not an exhaustive list of possible future events with potential relevance for future ratings. Circumstances can arise that are not included in the list of prospective factors whose effects are impossible to assess at the time of the rating, either because these effects are uncertain or because the underlying events are deemed unlikely to occur.

Prospective rating factors

- + Maintenance of stable operating earnings and cash flows
- + Hera investment plan will improve ESG profile
- + Equity-funded M&A transactions will continue and enable future growth

- Potential higher reliance on external financing sources amid higher investment needs
- Rising shareholder remuneration in the coming years will pressure free cash flow

ESG factors are factors related to environment, social issues and, governance. For more information, please see the "Regulatory requirements". CRA generally takes ESG relevant factors into account, when assessing the rating object and discloses them when they have a significant influence on the creditworthiness of the rating object, leading to a change in the rating result or the outlook.

ESG-factors

CRA generally considers ESG factors (environment, social and governance) within its rating decisions. In the case of Hera S.p.A. we have not identified any ESG factor with significant influence.

Nevertheless, the accelerated pace of renewable transition and the increasingly critical view of natural gas as a fossil fuel by the public, policymakers and investors could adversely affect Hera's business model, since nearly one-third of its activities is based on the distribution and sale of gas. Nevertheless, since the beginning of February 2022, the European Commission classified natural gas as sustainable source under certain conditions; regarding gas as an essential part of the energy mix and as a transitional technology. In the longer-term, the Company will remain susceptible to the future acceptance of natural gas as an energy source and will face higher costs and investments to adapt its business model to the changing economic conditions with respect to climate neutrality.

Hera's other business segments, namely waste and water, play a key role in terms of sustainability. The Company operates the entire waste and water cycles and is taking several initiatives to transition towards a circular economy, investing in recycling activities, using waste to produce biomethane, enhancing its logistics platform to support waste storage, treatment and appropriate disposal systems and expanding reuse and recovery of water.

Currently, nearly 40% of Hera's EBITDA is generated from environmentally sustainable activities, with a target of reaching 70% by 2030. To achieve this goal, the Company has committed itself to increasing its recycling activities (plastic by +150% and packaging by +80%), rising the share of electricity sales from renewable sources from current 41% to over 50%, almost doubling its biomethane production and reducing its carbon emission (scope 1, 2 and 3) by 37%, all by 2030.

A general valid description of Creditreform Rating AG, as well as a valid description of corporate ratings for understanding and assessing ESG factors in the context of the credit rating process, can be found [here](#).

Best-case scenario: BBB

In our best-case scenario for one year, we assume a rating of BBB. Such a scenario would occur if the Company's is able to sustain growth in operating results and if its leverage and liquidity profile do not deteriorate amid a higher investment phase. This scenario takes into account stability in macroeconomic and political conditions in Italy. An upgrade in the short-term is unlikely since the ratings are constrained by the sovereign rating of the Italian Republic.

Worst-case scenario: BBB-

In our worst-case scenario for one year, we assume a rating of BBB-. Such a scenario could materialize if the sovereign rating of the Italian Republic is downgraded or if the level of general business activity deteriorates, either due to an economic slowdown and consequent diminished demand environment or due to any disruption on gas supply.

Business development and outlook

Since the beginning of its operations, more than two decades ago, Hera S.p.A. has been increasing its scale significantly and delivering sequential growth in earnings results, with reported EBITDA reaching EUR 1,224 million in 2021. The increase in scale was achieved through recurring business acquisitions and expansion into gas trading activities, whose volume share increased from 30% of total gas sales in 2014 to nearly 80% in 2021. However, this strategy led to a continuous decline in profitability, with consolidated reported EBITDA margin declining from 21% to 11% in the same period.

In 2020, Hera operated in a much-challenged environment due to the adverse effects of the Covid-19 pandemic worldwide, which resulted in an unprecedented decline in energy prices and a negative impact of EUR31 million on the Company's results. Nevertheless, these adverse factors were entirely offset by Hera's continuous organic growth initiatives and by the consolidation of EstEnergy, which positively affected EBITDA by EUR 81 million, resulting in 3.5% earnings growth compared to previous year.

Throughout 2021 and early 2022, industry risks heightened further amid potential disruptions on oil and gas supply chains, exacerbated by a pickup in energy demand following post-pandemic economic recovery, and more recently, by geopolitical tensions between Russia and Ukraine. Energy prices had already been on an upward trend since early 2021 and now face even higher volatility with the intensification of the conflict, as current gas prices are trading at roughly EUR 104 per MWh, up from around EUR 10 per MWh during 2020. Italy is highly reliant on gas coming from Russia, as nearly half of its imports come from this country.

Hera's regulated activities, which includes the distribution of gas, electricity and water as well as district heating, generated EUR 472 million EBITDA in 2021, representing a 12% growth compared to previous year. This segment comprises approx. 40% of total EBITDA and has greater stability given that operations are conducted under concessions granted by local public authorities, leading to natural monopolies. Price cap set up by regulators covers a range of costs faced by the Company and contributes to relatively stable and predictable cash flows. The Company currently operates 10 gas distribution concessions, of which only one was recently renewed for a 12-year period (Udine), and the remaining ones already expired or are awaiting new tender process. Water concessions will expire only in the long-term, with average maturity in 2028. According to Hera's investment plans, the regulated asset base will increase by EUR 1 billion by 2025, adding around EUR 70 million in EBITDA to this segment.

Please note:

The scenarios are based on information available at the time of the rating. Within the forecast horizon, circumstances may occur that could lead to a change of the rating out of the indicated range.

The energy supply business generated EUR 423 million in 2021, 55% higher than in 2020. This positive result was mainly driven by higher prices and by new energy supply lots awarded through tender, which increased Hera's end-consumer base by 63.7 thousand in the period, reaching 3.5 million at 2021 year-end. According to the Company's plans, Hera will invest around EUR 600 million in the following year up to 2025, half of which will be directed to M&A activities, adding EUR 76 million in annual EBITDA and expanding its end-consumer base to 4.5 million (+1.1 million new customers).

The waste management segment is rebounding together with Italy's economic recovery and showed positive performance throughout 2021, with EBITDA growing by 34% year-over-year and amounting to EUR 292 million in this period. This strong growth is also due to a gain in competitiveness by Alplast's sustainable regenerated plastics and by three additional business acquisitions (Recycla, Valortigara and Sea). According to Hera's business plans, investments will amount to EUR 1.1 billion over the 2021-2025 period (half of which will also be spent on M&A activities), adding around EUR 122 million to this segment's annual EBITDA.

Based on Hera's track record of delivering continuous earnings growth as well as its history of consistently exceeding targets, we believe the company will be able to execute its business expansion plans and implement a more sustainable operating model, while at the same time maintaining its creditworthiness.

Table 2: Business development of Hera S.p.A. | Source: Annual Presentation 2021 and 2020, reported information

Hera S.p.A.			
In million EUR	2020	2021	Δ %
Sales	7,079	10,555	+49.1%
EBIT	551	612	+11.1%
EBITDA	1,123	1,224	+9.0%
EBT	435	407	-6.4%
EAT	323	373	+15.5%

Table 3: The development of corporate divisions in 2021 | Source: Annual Presentation 2021, reported information)

Hera S.p.A. according to individual corporate divisions in 2021				
in million EUR	Gas	Electricity	Waste	Water
Sales	5,969	3,025	1,328	965
EBITDA	488	145	292	262
Margin EBITDA	8.2%	4.8%	22.0%	27.2%

Structural risk

Hera S.p.A. is the parent company of the Group, which is organized into four main business areas: gas segment (40% of total EBITDA) consisting of distribution and sales as well as district heating and heat management; the electricity segment (12% of total EBITDA) including generation, distribution and sales; integrated water cycles (21% of total EBITDA) covering aqueduct, purification and sewerage services; and waste management (24% of total EBITDA) comprising waste collection, treatment and recovery services. Other services includes public lighting and telecommunications.

In the waste management segment, nearly all activities are carried out by the subsidiary Herambiente (75% owned by Hera and 25% owned by EWHL European Waste Holdings Limited), which manages and operates 90 treatment plants for the recovery and disposal of municipal waste, as well as hazardous and non-hazardous special waste. This subsidiary acquired Aliplast S.p.A. in 2017 and became the first company in Italy to achieve full integration of the plastic recycling cycle, collecting and processing nearly 90 thousand tonnes of plastic waste per year and producing high-quality regenerated polymers. This segment is also subject to a regulatory framework, both at the national and European levels, and operates under long-term concessions granted by public authorities located mostly in more populated and industrialized areas with high rates of waste collection.

The integrated water services are also carried out in the northeastern region of Italy through long-term concessions with local public authorities and are regulated by ARERA. Hera manages the entire aqueduct system process (collection, drinking water purification and water distribution), and all infrastructure is owned by municipalities and is to be returned at the end of the concession period. Hera provides its water services in 227 municipalities, through more than 1,200 plants and an aqueduct network of approximately 35,080 kilometres of pipelines.

Hera's energy division includes gas and electricity supply as well as district heating. All natural gas commercialized by the Company comes from imports, while electricity is generated from Hera's more than 65 plants, including photovoltaic, biogas, geothermic and thermal capacity. The Company's gas and electricity distribution activities are highly regulated, as they operate under a natural monopoly and are carried by the following subsidiaries: INRETE Distribuzione Energia S.p.A. and AcegasApsAmga S.p.A. (wholly-owned) and Marche Multiservizi S.p.A. (46.7% owned). The sale of gas and electricity to approximately 3.5 million end-consumers is carried out by the subsidiary Hera Comm, the third largest national operator in terms of customer base.

Hera is a public company with its shares trading on the Milan Borsa stock exchange since 2003. The Company's shareholder structure is highly fragmented, with 45.9% of the shares being held by 111 municipalities (none of them holding more than a 10% stake in the Company) and the remaining 54.1% being free float. The company has been increasing returns for its investors successively throughout its history, both through progressive dividend payments and share buy-back programs. Hera's share buyback initiatives aim to reduce the volatility of its shares on the stock market and are part of its strategy to finance the acquisition of small-sized business through share-swap agreements. According to our methodologies and based on Hera's standalone credit quality, the ratings could exceed the sovereign rating of Italy by up to two notches; nevertheless, we assigned just one notch uplift given that Hera is not controlled by the Government, but by municipalities within northeastern of Italy.

The Board of Directors currently consists of 15 members, 13 of which are non-executives, with the remaining two being the CEO and Executive Chairman. Furthermore, the Company's business risk management is enhanced by a statutory board of auditors and by four additional specialized committees: Executive, Remuneration, Ethics and Sustainability, Control and Risks.

Business risk

The energy sector is vulnerable to global economic performance and has remained highly volatile over recent years. Gas and electricity demand faced a significant drop during the pandemic in 2020 and recovered progressively throughout 2021 following the rollout of anti-Covid vaccination and the gradual increase in business activity worldwide. The faster-than-anticipated pickup in demand, with gas and electricity consumption in 2021 already reaching pre-pandemic levels, has exposed the industry to supply disruption risks, which have been further intensified by the Russia-Ukraine conflict since early this year. Hence, TTF gas prices reached a record high of EUR 227 in early March 2022 and already moderated to roughly EUR 100 per MWh, still much higher than the levels of EUR 10-15 per MWh seen in 2020. Electricity prices followed the same trend reaching EUR 356 per MWh, 9 times higher than the average in 2020. While around 90% of electricity consumption in Italy is met by domestic power generation, gas supply is much more critical, with 90% of the country's total needs being imported, half of which coming from Russia. This will likely result in an acceleration of the transition into renewables, with all companies in this sector having to accommodate higher investments to reshape their operating profile and ensure business continuity. Other short-to-medium term measures to replace gas coming from Russia is to increase gas imports in liquid form from the US, Qatar and other countries in Africa or use alternate pipelines from Algeria, Lybia and Azerbaijan.

Hera's diversification into a multi-utility business model, its strong regional market positioning and industry expertise, as well as its systemic importance for the Italian Republic are key factors enabling it to withstand a more challenging operating environment. Hera is Italy's fifth leading operator in electricity distribution, holding around 4% of market share in this segment. Concerning gas distribution, Hera ranks as the fourth largest player with a market share of nearly 4%. In the energy sale segment, including both gas and electricity, Hera serves roughly 3.4 million consumers and is the third largest national operator.

A significant share of Hera's results is derived from regulated activities (40% of total), a key factor contributing to the Company's stable business performance overtime. According to Italian law, the distribution and metering of gas, electricity and water are regulated and controlled by the independent Italian Authority for Energy, Networks and Environment (ARERA, Autorità di Regolazione, Energia, Reti e Ambiente, formerly AEEGSI). Its tasks include calculating and updating tariffs, and the provision of rules for access to infrastructures and for the delivery of the respective services. The tariff system is designed to cover the capital and operating costs directly related to the respective business activities. It covers remuneration on net invested capital, depreciation allowances, and the authorized operating costs. Concerning Regulated Asset Base (RAB), the regulator determines the tariffs on an annual basis. The Company is permitted to earn a certain maximum weighted average cost of capital. The duration of each regulatory period ranges between 4 and 8 years for these services. The revenues are updated annually in most cases.

In the waste management sector, Hera is the largest player in Italy with 6.6 million tons of wasted treated in 2021. This sector is also quite stable, varying somewhat according to regional economic performance and population growth. This is evidenced by Hera's steady EBITDA margin in this segment, which remained at nearly 22% over the past several years. Even during 2020, the most restrictive period during the Covid-19 crisis, profitability declined by only 0.5%, standing at 21.7%. The Company operates the entire waste cycle, including management of waste collection points, transportation, treatment and recycling, and its facilities are located in a more populated and higher income region with higher rate of sorted waste.

Financial risk

For the purposes of its financial ratio analysis, Creditreform Rating AG (CRA) adjusted the original values in the financial statements. For example, contrary to our normal practice, we deducted the goodwill shown on Hera's balance sheet from equity only by 50%, suggesting a certain recoverability of the goodwill.

Historically, Hera has shown a stable and well-balanced capital structure, which is confirmed by a relatively sound analytical equity ratio of over 25% and a solid asset coverage ratio of more than 90%. In our view, the Company has maintained conservative financial policies over the course of its history, with a prudent management of debt, investments and liquidity. Despite its acquisitive growth strategy, Hera's analytical Net Financial Debt to EBITDA remained below 3 times over the last years and cash holdings has been sufficient to cover at least 12 months of upcoming maturities.

As of September 2021, Hera's total financial debt amounted to EUR 4.2 billion, fairly stable as compared to debt levels at the end of 2020, but considerably higher than the average EUR 3.3 billion during the 3-year period that preceded the Covid-19 pandemic. Hera's indebtedness increased over time as a result of a EUR 500 million bond issuance in late 2020 to help finance its investment plans and nearly EUR 550 million related to a sale option for minority shareholders on EstEnergy business in the context of the merger agreement between Hera and Ascopiave reached in late 2019. Nevertheless, Hera's rising debt levels have been accompanied by higher EBITDA generation, which has supported stable credit metrics over the last years.

Hera's main external financing sources are bonds (nearly 80% of total) as well as other bank loans. Liability management initiatives throughout 2021 included more than EUR 400 million bond repurchases, which helped Hera to improve its debt structure. Accordingly, borrowing costs dropped to 2.8% compared to above 3.3% in previous years, and average debt duration increased from 6 to 7.2 years in the same period.

The Company's liquidity position is healthy considering its cash holdings of EUR 788 million at the end of September 2021, sufficient to cover all of its short-term financial debt maturities. Also, Hera's liquidity profile is further enhanced by its fully available committed credit facility of EUR 650 million and its stable cash flow generation, which so far has been enough to cover its organic growth. However, Hera's announced capex plans for the 2021-25 period will be significantly higher as compared to the last 5-year average of EUR 480 million, which could lead the Company to increase its debt levels in the coming years. On top of that, Hera also announced the continuity of its progressive dividend policy, with payment per share rising from EUR 12.00 in 2020 to EUR 14.50 in 2025. All of this will result in a prolonged period of negative free cash flows, which, in times of market turbulences, could exert some negative pressure on Hera's financial strengths.

Nevertheless, we assess Hera's financial risk profile as low. The reason for this is the Company's long history of stable business performance and its ample access to capital markets. Despite increased industry volatility, we still expect Hera to show a positive development in the years ahead, with its highly regulated business model ensuring a certain predictability in earnings results and the Company's expertise to continue growing through strategic acquisitions.

Issue rating

Issue rating details

The rating objects of this issue rating are exclusively the long-term senior unsecured issues, denominated in euro, issued by Hera S.p.A. and which are included in the list of ECB-eligible marketable assets. The ECB list of eligible marketable assets can be found on the website of the ECB.

The notes have been issued within the framework of the Euro Medium Term Note (EMTN) program, of which the latest base prospectus dates from 7 October 2021. This EMTN programme amounts to EUR 3.5 billion. The notes issued under this programme are senior unsecured and rank at least pari passu among themselves and with all other present and future unsecured obligations of the issuer. Additionally, the notes benefit from a negative pledge provision, a change of ownership clause and a cross default mechanism. The notes can be called by the creditors in the event of a loss of a substantial portion of the concessions.

Result corporate issue rating

We derive the unsolicited corporate issue ratings of euro-denominated bonds from the unsolicited corporate issuer rating of Hera S.p.A. (**BBB / stable**). The rating of the issues is therefore set equal to the corporate rating of the issuer. The rating result is **BBB** with **stable** outlook. For the issue ratings, we have applied our rating methodology for corporate issues.

Overview

Table 4: Overview of CRA Ratings | Source: CRA

Rating Category	Details	
	Date	Rating
Hera S.p.A.	29.03.2022	BBB / stable
Long-term Local Currency (LC) Senior Unsecured Issues	29.03.2022	BBB / stable
Other	--	n.r.

Table 5: Overview of 2021 Euro Medium Note Programme | Source: Base Prospectus dated 07.10.2021

Overview of 2021 EMTN Programme			
Volume	EUR 3,500,000,000	Maturity	Depending on respective bond
Issuer / Guarantor	Hera S.p.A.	Coupon	Depending on respective bond
Arranger	Mediobanca	Currency	Depending on respective bond
Credit enhancement	None	ISIN	Depending on respective bond

All future LT LC senior unsecured Notes issued by Hera S.p.A. and which have similar conditions to the current EMTN programme, denominated in Euro and included in the list of ECB-eligible marketable assets will, until further notice, receive the same ratings as the current LT LC senior unsecured Notes issued under the EMTN programme. Notes issued under the programme in any currency other than euro, or other types of debt instruments, have not yet been rated by CRA. For a list of all currently valid ratings and additional information, please consult the website of Creditreform Rating AG. For the time being, other emission classes or programmes (such as the Commercial Paper Programme) and issues that do not denominate in euro will not be assessed.

Financial ratio analysis

Table 6: Financial key ratios | Source: Hera S.p.A. Annual report 2020, structured by CRA

Asset structure	2017	2018	2019	2020
Fixed asset intensity (%)	66.15	65.06	65.74	62.85
Asset turnover		0.73	0.76	0.72
Asset coverage ratio (%)	90.99	92.35	89.28	96.10
Liquid funds to total assets	6.64	6.81	4.69	11.16
Capital structure				
Equity ratio (%)	30.32	30.77	26.95	26.32
Short-term debt ratio (%)	28.21	31.38	29.25	30.61
Long-term debt ratio (%)	29.87	29.31	31.75	34.08
Capital lock-up period (in days)	90.77	81.15	73.51	77.49
Trade-accounts payable ratio (%)	16.68	15.69	14.60	14.69
Short-term capital lock-up (%)	11.23	15.94	12.82	16.07
Gearing	2.08	2.03	2.54	2.38
Leverage		3.27	3.48	3.76
Financial stability				
Cash flow margin (%)		11.10	11.10	10.97
Cash flow ROI (%)		7.91	8.10	7.66
Total debt / EBITDA adj.	5.79	5.82	6.39	6.65
Net total debt / EBITDA adj.	5.23	5.24	5.98	5.65
ROCE (%)	12.56	12.29	11.46	11.79
Total debt repayment period		9.08	6.50	8.55
Profitability				
Gross profit margin (%)	19.53	18.84	16.99	18.24
EBIT interest coverage	2.08	2.51	2.64	2.78
EBITDA interest coverage	3.75	4.40	4.39	5.09
Ratio of personnel costs to total costs (%)	9.75	8.93	8.06	8.04
Ratio of material costs to total costs (%)	80.62	81.34	83.11	81.93
Cost income ratio (%)	93.19	93.18	91.87	93.58
Ratio of interest expenses to total debt (%)	3.79	3.39	3.56	2.64
Return on investment (%)	4.58	4.65	5.68	4.39
Return on equity (%)		11.40	15.36	12.29
Net profit margin (%)	4.72	4.80	5.78	4.53
Operating margin (%)	8.15	8.26	9.41	7.74
Liquidity				
Cash ratio (%)	19.09	19.68	13.06	31.63
Quick ratio (%)	111.71	103.41	108.71	114.57
Current ratio (%)	120.00	111.32	117.13	121.36

Appendix

Rating history

The rating history is available under <https://www.creditreform-rating.de/en/ratings/published-ratings.html>.

Table 7: Corporate Issuer Rating of Hera S.p.A.

Event	Rating created	Publication date	Monitoring until	Result
Initial rating	29.03.2022	www.creditreform-rating.de	Withdrawal of the rating	BBB / stable

Table 8: LT LC Senior Unsecured Issues issued by Hera S.p.A.

Event	Rating created	Publication date	Monitoring until	Result
Initial rating	29.03.2022	www.creditreform-rating.de	Withdrawal of the rating	BBB / stable

Regulatory requirements

The rating² was not endorsed by Creditreform Rating AG (Article 4 (3) of the CRA-Regulation).

The present rating is, in the regulatory sense, an unsolicited rating, that is public. The analysis was carried out on a voluntary basis by Creditreform Rating AG, which was not commissioned by the Issuer or any other third party to prepare the present rating.

The rating is based on the analysis of published information and on internal evaluation methods for the assessment of companies and issues. The rating object was informed of the intention of creating or updating an unsolicited rating before the rating was determined.

The rating object participated in the creation of the rating as follows:

Unsolicited Corporate Issuer / Issue Rating	
With rated entity or related third party participation	No
With access to internal documents	No
With access to management	No

The rating was conducted based on the following information.

List of documents
Accounting and controlling
<ul style="list-style-type: none"> ▪ Annual Report 2020 ▪ Interim Report 3Q 2021
Finance
<ul style="list-style-type: none"> ▪ EMTN Base Prospectus October 7, 2021
Additional documents
<ul style="list-style-type: none"> ▪ Company's presentation ▪ Sustainability report ▪ Press releases

² In these regulatory requirements the term "rating" is used in relation to all ratings issued by Creditreform Rating AG in connection to this report. This may concern several companies and their various issues.

A management meeting did not take place within the framework of the rating process.

The documents submitted and information gathered were sufficient to meet the requirements of Creditreform Rating AG's rating methodologies.

The rating was conducted based on the following rating methodologies and the basic document.

Rating methodology	Version number	Date
Corporate Ratings	2.3	29.05.2019
Government-related Companies	1.0	19.04.2017
Non-financial Corporate Issue Ratings	1.0	October 2016
Rating Criteria and Definitions	1.3	January 2018

The documents contain a description of the rating categories and a definition of default.

The rating was carried out by the following analysts:

Name	Function	Mail-Address
Sabrina Mascher de Lima	Lead-analyst	S.Mascher@creditreform-rating.de
Christina Sauerwein	Analyst	C.Sauerwein@creditreform-rating.de

The rating was approved by the following person (person approving credit ratings, PAC):

Name	Function	Mail-Address
Philip Michaelis	PAC	P.Michaelis@creditreform-rating.de

On 29 March 2022, the analysts presented the rating to the rating committee and the rating was determined. The rating result was communicated to the company on 30 March 2022. There has not been a subsequent change to the rating.

The rating will be monitored until Creditreform Rating AG withdraws the rating. The rating can be adjusted as part of the monitoring, if crucial assessment parameters change.

In 2011, Creditreform Rating AG was registered within the European Union according to EU Regulation 1060/2009 (CRA-Regulation). Based on this registration, Creditreform Rating AG is allowed to issue credit ratings within the EU and is bound to comply with the provisions of the CRA-Regulation.

ESG-factors

You can find out whether ESG factors were relevant to the rating in the upper section of this rating report "Relevant rating factors".

A general valid description for Creditreform Rating AG, as well as a valid description of corporate ratings for understanding and assessing ESG factors in the context of the credit rating process, can be found [here](#).

Conflict of interests

No conflicts of interest were identified during the rating process that might influence the analyses and judgements of the rating analysts involved or any other natural person whose services are placed at the disposal or under the control of Creditreform Rating AG and who are directly involved in credit rating activities or in approving credit ratings and rating outlooks.

In the event of providing ancillary services to the rated entity, Creditreform Rating AG will disclose all ancillary services in the credit rating report.

Rules on the presentation of credit ratings and rating outlooks

The approval of credit ratings and rating outlooks follows our internal policies and procedures. In line with our "Rating Committee Policy", all credit ratings and rating outlooks are approved by a rating committee based on the principle of unanimity.

To prepare this credit rating, Creditreform Rating AG has used following substantially material sources:

Corporate issuer rating:

1. Annual report
2. Website
3. Internet research

Corporate issue rating:

1. Corporate issuer rating incl. information used for the corporate issuer rating
2. Documents on issues / instruments

There are no other attributes and limitations of the credit rating or rating outlook other than those displayed on the Creditreform Rating AG website. Furthermore, Creditreform Rating AG considers as satisfactory the quality and extent of information available on the rated entity. With respect to the rated entity, Creditreform Rating AG regarded available historical data as sufficient.

Between the time of disclosure of the credit rating to the rated entity and the public disclosure, no amendments were made to the credit rating.

The Basic Data Information Card indicates the principal methodology or version of methodology that was used in determining the rating, with a reference to its comprehensive description.

In cases where the credit rating is based on more than one methodology or where reference only to the principal methodology might cause investors to overlook other important aspects of the credit rating, including any significant adjustments and deviations, Creditreform Rating AG explains this fact in the credit rating report and indicates how the different methodologies or other aspects are taken into account in the credit rating. This information is integrated in the credit rating report.

The meaning of each rating category, the definition of default or recovery and any appropriate risk warning, including a sensitivity analysis of the relevant key rating assumptions such as mathematical or correlation assumptions, accompanied by worst-case scenario credit ratings and best-case scenario credit ratings are explained.

The date at which the credit rating was initially released for distribution and the date when it was last updated, including any rating outlooks, is indicated clearly and prominently in the Basic Data Information Card as a "rating action"; initial release is indicated as "initial rating", other updates are indicated as an "update", "upgrade" or "downgrade", "not rated", "confirmed", "selective default" or "default".

In the case of a rating outlook, the time horizon is provided during which a change in the credit rating is expected. This information is available within the Basic Data Information Card.

In accordance with Article 11 (2) EU-Regulation (EC) No 1060/2009, a registered or certified credit rating agency shall make available, in a central repository established by ESMA, information on its historical performance data including the rating transition frequency and information about credit ratings issued in the past and on their changes. Requested data are available at the [ESMA website](#).

An explanatory statement of the meaning of Creditreform Rating AG's default rates are available in the credit rating methodologies disclosed on the website.

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