Edison Spa

Ufficio Stampa
Foro Buonaparte, 31
20121 Milano - MI

Tel. +39 02 6222.7331
Fax. +39 02 6222.7379
ufficiostampa@edison.it

Comunicato stampa

EDISON: STANDARD & POOR'S MODIFICA RATING A BBB- CON CREDIT WATCH NEGATIVO

Milano, 5 dicembre 2011 – Edison rende noto che l'agenzia di rating Standard & Poor's ha modificato oggi, il merito di credito a lungo termine di Edison a BBB- con credit watch negativo.

Si riporta di seguito il testo integrale del comunicato stampa diramato da Standard & Poor's:

Italian Utility Edison Downgraded To 'BBB-', Placed On Watch Negative On Weakening SACP And Shareholder Agreement Delay

Overview

- Increasingly tough market conditions in key midstream gas operations have weakened the profitability and credit metrics of Italy-based utility Edison SpA as well as its prospects for recovery over the medium term.
- Edison's current shareholders, Delmi SpA, A2A SpA, and Electricité de France S.A. (EDF), have further extended the deadline for giving notice of termination of their shareholder agreement to Dec. 30, 2011, from Nov. 30, 2011, previously. This is the fourth time the deadline has been pushed back.
- We are therefore lowering our corporate credit ratings on Edison to'BBB-/A-3' from 'BBB/A-2' following the revision of its stand-alone credit profile to 'bb+' from 'bbb-'. At the same time, we are revising the CreditWatch status on the ratings to negative from developing.
- The CreditWatch negative placement reflects the possibility of us lowering the ratings if we were to reassess the current one-notch uplift for shareholder support from joint owner EDF, and/or if Edison were unable to maintain an "adequate" liquidity profile.

Rating Action

On Dec. 5, 2011, Standard & Poor's Ratings Services lowered its long- and short-term corporate credit ratings on Italy-based utility Edison SpA to 'BBB-/A-3' from 'BBB/A-2' following the revision of its stand-alone credit profile (SACP) on Edison to 'bb+' from 'bbb-'. At the same time, we revised the CreditWatch status on the ratings to negative from developing. The ratings were originally placed on CreditWatch developing on June 21, 2011, due to uncertainty over Edison's shareholder structure.
The ratings on Edison continue to reflect a one-notch uplift for shareholder support from joint owner Electricité de France S.A. (EDF; AA-/Stable/A-1+).

Rationale

The downgrade reflects our view that tough market conditions in Edison's key midstream gas operations will lead to much lower

profitability and cash flows over the medium term. As a result, we have reassessed our opinion of Edison's business risk profile, which we now classify as "satisfactory" rather than as "strong" previously. This led us to revise our stand-alone credit profile (SACP) assessment to 'bb+' from 'bbb-'. In 2010 and continuing in 2011, the market price for gas has fallen below the cost of gas imported under long-term take-or-pay contracts. This has led to negative gas supply margins and a loss for Edison's gas operations. As a consequence, Edison's results for the first nine months of 2011 remained, in our opinion, very weak, with EBITDA declining by 23% compared with the same period the previous year. Despite Edison completing the renegotiation of its long-term gas contract with Promgas (not rated), we anticipate that Edison's credit metrics will likely fall well below levels that we view as commensurate with the previous SACP in 2011 and 2012. Until Sept. 30, 2011, the rolling-12-month ratio of Standard & Poor's-adjusted funds from operations(FFO) to debt fell to about 15%, from 21.8% for the financial year ended Dec.31, 2010. We believe that to maintain the current SACP, Edison needs to progressively strengthen its financial credit metrics in line with our revised forecast of an adjusted FFO-to-debt ratio of at least 15% in 2012, and more than 18% in 2013 and beyond.

Meanwhile, on Nov. 4, 2011, Edison's shareholders--Delmi SpA (not rated), Italian utility A2A SpA (BBB+/Negative/A-2), and EDF--agreed in principle the allocation of the generation assets and the main steps of a reorganization of the ownership structure. We previously anticipated that a binding agreement regarding the shareholder structure and governance of Edison would be signed by the end of November 2011. It has now been postponed, for the fourth time,to the end of December 2011. We understand that, under Edison's current shareholder agreement, there is a provision that allows for the auction of the 63% share held by its holding company Transalpina d'Energia (TdE, not rated). If TdE's share were put up for auction, the current shareholders, as well as other parties, could bid for it. We believe that the further delay makes this scenario more likely than we previously anticipated. Nevertheless, we still see no incentives for any of the parties involved to force such a scenario. If a binding agreement was to be signed by the end of December, completion would remain subject to the final documentation, the completion of all corporate approval processes, and the approval of the relevant antitrust and regulatory authorities. In light of these factors, we believe that the reorganization cannot be completed and implemented before the end of the first quarter of 2012.

In our opinion, the current negotiations between EDF and Delmi--an investment vehicle that is 51%-owned and controlled by A2A--with respect to the joint ownership of Edison, could affect the ratings on Edison in the following ways:

- Should EDF gain further control of Edison, this would support the one-notch uplift for shareholder support from EDF that we currently factor into our corporate credit ratings on Edison. We also believe that, in the longer term, this additional control could progressively strengthen Edison's credit quality, reflecting the higher creditworthiness of EDF.
- Should EDF sell its stake in Edison, we would remove the one-notch uplift for shareholder support that is currently reflected in the corporate credit ratings in line with our parent-subsidiary criteria (see "Credit FAQ: How Negotiations Of The EDF/A2A/Delmi Shareholder Agreement Could Affect The Ratings On Edison, EDF, And A2A," published June 21, 2011, on RatingsDirect on the Global Credit Portal).
- Should EDF gain full managerial control of Edison, and should we subsequently assess Edison as a core subsidiary of EDF, we could potentially equalize the ratings on Edison with EDF's SACP. However, we think this scenario is unlikely to materialize at the time that the reorganization is completed. Our satisfactory business risk profile assessment is supported by Edison's well-established position as Italy's second-largest electricity and gas group; and by its efficient and modern generation fleet. These strengths are offset by its primary focus on power generation and limited downstream integration; and by the decline in electricity

and gas demand, as well as electricity prices, as a result of the economic downturn in Italy. Further business risk constraints include the continued pressure on Edison's gas margins, owing to gas oversupply in the European market; a more-limited ability than its European peers to sell output forward due to Italian market conditions; the limited fuel diversity of the group's generation fleet, which is primarily gas-fired; and the weakening of its financial risk profile. The significant financial risk profile reflects material deterioration in the group's financial metrics. This comes as a result of pressures on earnings and cash flows in the challenging market conditions in Italy. The deterioration is partially mitigated by the group's increased focus on financial discipline through the reduction of capital expenditures (capex) and its focus on debt reduction.

Liquidity

The short-term rating is 'A-3'. We assess the group's liquidity as "adequate" under our criteria. Prolonged uncertainty concerning Edison's shareholder structure, however, may in our view impair refinancing conditions for Edison over the near to medium term. Edison's projected sources of liquidity--mainly operating cash flow and available bank lines--exceed its projected uses by more than 1.2x over the next 12 months. These uses include committed capex, debt maturities, and dividends. Edison's funding requirements total about €1.8 billion over the next 12 months, comprising debt maturities of about €909 million (including €550 million at 50%-owned subsidiary Edipower, which falls due in December 2011); negative working capital; and capex. Against those needs, we understand that Edison has €265 million of cash available; €858 million of available committed credit lines with a maturity of longer than 12 months; and will receive €170 million of disposal proceeds from the sale of its Taranto thermoelectric plants. In addition, we forecast that Edison's FFO should be about €800 million over the next 12 months.Edison was able to maintain full access to the bond markets during thefinancial crisis and, despite the uncertainty surrounding its ownership structure, was able to secure an 18-month, €700 million revolving credit facility. In our view, this supports our assessment of Edison's adequate liquidity profile. Nevertheless, we believe that Edison's liquidity position could come under pressure due to significant maturities in December 2012 (€500 million) and April 2013 (up to €1.5 billion depending on the utilization of available credit lines). This may lead us to consider the group's liquidity as "less than adequate" if the maturities are not addressed on a timely basis. We estimate the funding gap in the next 12-24 months at about €1 billion. We understand that the group intends to refinance its debt either through a bond issue or medium-term financing. Our understanding is that the decision will be taken once the ownership structure is finalized. We understand that there are no material covenants in Edison's debt documentation.

CreditWatch

The CreditWatch listing reflects the possibility of us lowering the ratings, depending on our view of the implications of further delays in the reorganization of Edison's ownership structure as well as Edison's ability to maintain an "adequate" liquidity position. We would likely lower the ratings by one notch if we believed that EDF would sell its stake in Edison. We could consider a multi-notch downgrade if, as a result of Edison's inability to secure long-term funding, we were to assess the liquidity of Edison as "less than adequate." We could affirm the ratings if EDF were to obtain control of Edison, because this would support the one-notch uplift for shareholder support from EDF that we currently factor into our corporate credit ratings on Edison. We aim to review the CreditWatch placement by March 2012.

Related Criteria And Research

All articles listed below are available on RatingsDirect on the Global Credit
Portal, unless otherwise stated.

- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Sept. 28, 2011
- Edison 'BBB/A-2' Ratings Remain On Watch Developing On Weakening SACP And Delayed Agreement On Shareholder Structure, Sept. 19, 2011
- Edison 'BBB/A-2' Ratings Placed On CreditWatch Developing On Weakening SACP And Uncertainty Over Shareholder Structure, June 21, 2011
- Credit FAQ: How Negotiations Of The EDF/A2A/Delmi Shareholder Agreement Could Affect The Ratings On Edison, EDF, And A2A, June 21, 2011
- Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria Methodology: Business Risk/Financial Risk Matrix Expanded, May 27, 2009
- 2008 Corporate Criteria: Ratios And Adjustments, April 15, 2008
- 2008 Corporate Criteria: Analytical Methodology, April 15, 2008
- Corporate Criteria--Parent/Subsidiary Links; General Principles; Subsidiaries/Joint Ventures/Nonrecourse Projects; Finance Subsidiaries; Rating Link to Parent, Oct 28, 2004

Ratings List

Downgraded; CreditWatch/Outlook Action

	To	From
Edison SpA		
Corporate Credit Rating	BB-/Watch Neg/A-3	BBB/Watch Dev/A-2
Senior Unsecured Debt	BBB-/Watch Neg	BBB/Watch Dev

Additional Contact:

Infrastructure Finance Ratings Europe;InfrastructureEurope@standardandpoors.com

Complete ratings information is available to subscribers of RatingsDirect on the Global Credit Portal at www.globalcreditportal.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following Standard & Poor's numbers:

Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

***

Obblighi informativi verso il pubblico previsti dalla delibera Consob n. 11971 del 14.5.1999 e successive modifiche

Direzione Relazione Esterne Edison

Ufficio Stampa Edison:
T 02 6222 1; ufficiostampa@edison.it

Investor Relations Edison:
T 02 62228415; E investor.relations@edison.it

Le news Edison in tempo reale su www.edison.it e twitter.com/EdisonNews