MOODY'S
INVESTORS SERVICE

Rating Action: Moody's affirms SIAS's Baa2 long-term ratings; negative outlook

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London, 29 January 2014 -- Moody's Investors Service has today affirmed the Baa2 long-term senior secured rating of SIAS - Societa Iniziative Autostrad. S.p.A., the second-largest toll road operator in Italy. Concurrently, Moody's has affirmed the provisional (P)Baa2/(P)Baa3 senior secured/unsecured ratings on SIAS's euro medium-term note (EMTN) programmes. The outlook on the ratings remains negative.

Moody's actions reflect the Italian government's recent approval of 2014 tariff decrees, which resulted in lower-than-expected tariffs for some of SIAS's concessions as a consequence of government intervention to limit tariff increases. The government's decrees deviate from the existing regulatory framework, but also explicitly refer to remediation measures to compensate the company for the tariff deficit under a financial neutrality principle. The approval of such measures, if completed as expected on March, would limit the negative effect on SIAS's overall creditworthiness. The action also reflects (1) the fundamental importance to Northern Italy's transportation system of SIAS's road networks, which remain a credit strength for the company despite the negative traffic trends observed recently; and (2) SIAS's sustainable leverage and strong liquidity position, which support its sizeable investment plan.

RATINGS RATIONALE

Today's affirmation follows the recent approval of the 2014 tariffs decrees for all the concessions operated by SIAS by the Italian Ministry of Transport (MoT). For several concessions (SATAP A21, SAV and ATIVA) the approved tariffs were significantly lower than those expected from the application of the concession agreements' tariff mechanisms, as a consequence of the government's intention to contain transportation costs, in light of still depressed domestic socio-economic conditions.

According to the tariff decrees, the MoT will approve revised financial plans for the concessions affected by the tariff capping in order to provide for the recovery, under a financial neutrality principle, of the differential between the tariffs resulting from the application of the formulae included in the concession agreements and the new capped tariffs. SIAS has already submitted to the MoT (for approval by 31 March 2014) a revised financial plan for SATAP A21, which allows for a full recovery of the resulting tariff deficit through compensation to be paid at the end of the concession (2017) by the new entrant or through an extension of the concession's life until the tariff deficit is entirely recovered. In Moody's view, if approved, SIAS's revised plan would compensate for the credit-negative effect on short-term cash flows with a credible financial rebalancing scheme.

However, Moody's cautions that failure to get to an approval of the revised financial plans currently under government scrutiny in a form that guarantees a certain and full recovery of tariff deficits within a short timeframe would likely be credit negative for SIAS and, therefore, put downward pressure on current ratings.

SIAS's rating also takes account of the low-to-moderate business risk associated with the company's toll roads operations, comprising a sizeable network of essential transport links in one of Italy's most economically active regions, albeit characterised by negative traffic trends since 2011. Moody's notes that the decline in traffic volumes appears to have slowed in 2013, as shown by a -3.1% year-on-year traffic decline in the first nine months of 2013, compared with an overall -7.5% decrease recorded in 2012.

Furthermore, the rating continues to factor in SIAS's extensive capital programme, which will limit the group's ability to reduce debt, at least in the medium term, as well as the relatively short remaining life of its concessions compared with that of other European operators.

More positively, the rating is also supported by the company's strong liquidity position, whose large cash balance and operating cash flows are sufficient to cover the company's maturing debt, planned capex and other cash outflows up to 2017, as well as by SIAS's overall sustainable leverage. Finally, SIAS's rating incorporates credit quality constraints resulting from the macroeconomic and financial risks associated with being based in Italy, which are reflected in traffic volume declines and political pressures on toll road tariffs.

RATIONALE FOR NEGATIVE OUTLOOK

Moody's outlook on SIAS's rating is negative, in line with that of the Italian sovereign. This reflects SIAS's exposure to the challenging economic situation in Italy and the pressures that this could exert on the company's financial and business risk profile. Moody's negative outlook also takes into consideration (1) the additional regulatory/political risk arising from the government's awaited approval of the revised financial plans on several concessions; and (2) the limited flexibility left at the Baa2 rating level as a consequence of lower tariffs and declining traffic volumes, which translates into short-term pressure on credit metrics, although Moody's expects that the company will be able to remain within its ratio guidance for the current rating barring any negative impact from the aforementioned factors.

To support current ratings, SIAS must achieve FFO interest cover of 4.0x and FFO/debt positioned in the low teens and trending toward the mid-teens over the short to medium term. Moody's guidance in respect of such parameters is tighter than for some of its peers, reflecting SIAS's shorter weighted average concession life and the associated limitations on the company's debt capacity.

WHAT COULD CHANGE THE RATING UP/DOWN

Moody's does not expect near-term upward pressure on the rating. A stabilisation of the current negative outlook is conditional upon (1) a stable outlook for Italy's sovereign rating; (2) the approval of the revised financial plans, as submitted by SIAS and currently under government scrutiny, in a form that guarantees a certain and full recovery of tariff deficits within a short timeframe; and (3) SIAS's motorway traffic volumes stabilising at least to 2013 levels.

Downward rating pressure could develop in case of (1) a further material deterioration of the sovereign and macroeconomic environment in Italy; (2) a material change in the terms and conditions of key concessions, or other public intervention that negatively affects the overall group's business or financial risk profile; (3) large-scale, debt-funded acquisitions/investments or diversification away from the domestic infrastructure activities; and (4) failure to maintain the expected minimum financial profile mentioned above.

PRINCIPAL METHODOLOGY

The principal methodology used in this rating was Operational Toll Roads published in December 2006. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

SIAS is the second-largest toll road operator in Italy. The company's consolidated network currently consists of approximately 910 km of tolled motorways (as well as an additional 118 km currently under construction), mainly located in the north-west of Italy and operated through eight concessions with maturities ranging from 2017-40.

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