MOODY'S
INVESTORS SERVICE

# Rating Action: Moody's upgrades Hella to Baa2; outlook stable

Global Credit Research - 17 Feb 2012

**Approximately EUR 475 million of rated debt affected**

Frankfurt am Main, February 17, 2012 -- Moody's Investors Service has today upgraded Hella KGaA Hueck & Co. to Baa2 from Baa3. In addition, Moody's has upgraded the ratings on Hella's EUR 300 million notes due 2014 and JPY12 billion worth of senior notes due in 2032 to Baa2 from Baa3. Furthermore, Hella's short-term issuer rating has been upgraded to Prime-2 from Prime-3. The outlook on the ratings was changed to stable from positive.

RATINGS RATIONALE

"The upgrade to Baa2 reflects the improvement in Hella's profitability and credit metrics in recent years" says Rainer Neidnig, a Moody's Vice President and lead analyst for Hella. "Although current financial ratios may prove to reflect the peak of the industry cycle, we expect them to leave adequate headroom within the Baa2 rating category for a potential cyclical weakening" adds Mr Neidnig.

For the last twelve months ending November 2011, the group generated sales of EUR 4.6 billion and the EBIT-margin was 7.7% on a Moody's adjusted basis. Debt/EBITDA stood at 1.6x (net debt/EBITDA 1.1x) and Free Cash Flow was positive with EUR 103 million.

In Moody's view, the earnings recovery from the trough in the fiscal year 2008/09 (debt/EBITDA 4.3x; EBIT-margin 0.7%) was not only driven by the recovery of demand for new cars, primarily in Europe and North America, but also by cost-saving and efficiency improvement measures implemented by Hella in recent years. Against this backdrop we expect Hella to be able to maintain leverage ratios at 2.5x debt/EBITDA or lower on a sustainable basis and an EBIT-margin of close to 6% over the business cycle.

Hella's rating is supported by the group's market-leading positions in lighting technology, in the European independent aftermarket as well as in original equipment electronics. The rating also takes into consideration the size of Hella's Aftermarket division (accounting for 22% of the group's H1 2011/12 revenues), which is less cyclical than its original automotive equipment activities and which supports revenue and profitability stability during the economic cycle. Hella's rating benefits further from the group's track record in adjusting its cost structure and improving its operational efficiency. In addition, Moody's notes positively the group's efforts to diversify both its customer base and its geographical spread.

In general, the risks for Hella are associated with the inherent cyclicality of the automotive industry, potentially volatile costs for raw materials or purchased components and the intense competition in the entire automotive supply industry. This requires the ongoing optimization of efficiency, processes and costs as well as continued investments in research and development in order to offer innovative product solutions. Moreover, unforeseen operational issues caused by Hella's expansion abroad or new product launches may also lead to a weakening in the company's metrics.

Currently, we believe that the major risks are in the macroeconomic environment, e.g. potential repercussions of the sovereign debt crisis in Europe or a rapid cooling of economic growth in emerging markets such as China. The Baa2 rating reflects an anticipated decline of 6% in European light vehicle production in 2012 and growth in other regions which we expect to result in metrics in line with the current rating category.

In order to remain adequately positioned at Baa2, Hella needs to maintain: (i) debt/EBITDA below 2.5x,

(ii) an EBIT-margin of close to 6% and (iii) positive FCF generation through the cycle. Moreover, the Baa2 rating reflects the expectation that Hella will maintain a continued balanced financial policy.

Negative pressure on the rating would arise if (i) Hella's profitability came under pressure, resulting in an EBIT-margin falling again sustainably below 5% or material negative FCF; and (ii) its debt/EBITDA ratio were to exceed 2.5x or if RCF/net debt fell notably below 30%.

Moody's would consider upgrading Hella's ratings, if the company were to achieve on a sustainable basis an EBIT-margin close to 10% and a debt/EBITDA ratio well below 2.0x. Moreover, an upgrade would require material positive FCF generation and an RCF/net debt ratio above 40% on a sustainable basis.

The principal methodology used in this rating was Global Automotive Supplier Methodology published in January 2009. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

Headquartered in Lippstadt, Germany, Hella KGaA Hueck & Co. is one of the leading automotive lighting and electronics components suppliers, with a strong position in the European aftermarket. The company's Lighting and Electronics businesses generate around 40% and 30%, respectively, of revenues. Both businesses are organized under the Original Equipment division. The Lighting business manufactures head lamps, signal lamps, interior lamps and lighting electronics; while the Electronics business produces body electronics, energy management electronics, driver assistance electronics, sensors and actuators. Around 25%-30% of revenues are generated by the Aftermarket (distribution of parts and accessories to wholesalers or garages) and the Special Applications division (original equipment for non-automotive industries such as the agriculture, mining or marine sectors).

Hella is family owned and generated revenues of EUR 2.3 billion in the six-month period ending 30 November 2011. In this period 55% of revenues were generated with end customer located in Europe, 18% in the NAFTA region and 27% in Asia and other regions. The company employs approximately 25,000 people at more than 70 manufacturing facilities, production subsidiaries and joint ventures worldwide.

Upgrades:

..Issuer: Hella KGaA Hueck&Co

.... Issuer Rating, Upgraded to P-2, Baa2, Baa2 from P-3, Baa3, Baa3

.... Issuer Rating, Upgraded to P-2, Baa2, Baa2 from P-3, Baa3, Baa3

.... Issuer Rating, Upgraded to P-2, Baa2, Baa2 from P-3, Baa3, Baa3

....Senior Unsecured Regular Bond/Debenture, Upgraded to Baa2 from Baa3

....Senior Unsecured Regular Bond/Debenture, Upgraded to Baa2 from Baa3

Outlook Actions:

..Issuer: Hella KGaA Hueck&Co

....Outlook, Changed To Stable From Positive

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