MOODY'S
INVESTORS SERVICE

Rating Action: **Moody's upgrades Hella to Baa3; outlook positive**

Global Credit Research - 22 Feb 2011

Approximately EUR400 million of rated debt affected

Frankfurt am Main, February 22, 2011 -- Moody's Investors Service has today upgraded Hella KGaA Hueck & Co by one notch to Baa3 from Ba1 and has converted its corporate family rating (CFR) into a long-term issuer rating in line with Moody's policy for issuers that have moved from speculative grade to investment grade. In addition, Moody's has upgraded to Baa3 from Ba1 the ratings on Hella's EUR300 million worth of senior notes (due in 2014) and JPY12 billion worth of senior notes (due in 2032). Furthermore, the rating agency has upgraded Hella's short-term issuer rating to Prime-3 from Not-Prime. The outlook on the ratings is positive.

RATINGS RATIONALE

"Today's upgrade reflects the rapid recovery of Hella's profitability and leverage ratios following the severe downturn in the automotive industry in 2009. Indeed, the company's recovery has been faster than Moody's anticipated in 2009 when it downgraded Hella's rating to Ba1," says Rainer Neidnig, a Moody's Assistant Vice President and lead analyst for Hella. "The positive outlook reflects Moody's view that a rating upgrade is possible over the next 12-18 months if Hella is able to sustain its current profit margins and credit metrics," adds Mr Neidnig.

On 31 January 2010, Hella reported unaudited results for the first half of the fiscal year (FY) 2010/11. The group's sales increased by 27% compared with the previous year, to EUR2.06 billion, and its reported EBITDA amounted to EUR252 million, compared with EUR173 million in H1 2009/10. On a Moody's adjusted basis, Hella exhibited an EBIT margin of 6.4% for the last 12 months (LTM) ending November 2010, which compares with 5.0% in FY 2009/10 and 0.7% during the industry downturn in FY 2008/09.

In Moody's view, this strong earnings recovery is a result not only of the higher levels of sales, but also of the benefits of the cost-saving and efficiency improvement measures implemented by the group in recent years. On a Moody's adjusted basis, Hella's debt/EBITDA ratio further improved to 2.2x on an LTM basis compared with 2.7x in FY 2009/10 and 4.3x in FY 2008/09. Free cash flow (FCF) generation was slightly negative (EUR -37 million) in the LTM period, owing to (i) a substantial increase in working capital, which Moody's does not expect to recur at similar levels in future, (ii) a return of capital expenditures to historical levels following a relatively moderate reduction in FY 2009/10 and (iii) the resumption of dividend payments (EUR 20 million) following years of no distributions to shareholders.

Hella's Baa3 rating continues to benefit from 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 & Special OE division (accounting for 26% of the group's H1 2010/11 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.

However, Moody's cautions that Hella remains exposed to the cyclicality of automotive production volumes, given that 74% of the group's revenues (H1 2010/11) are derived from parts and components for the original equipment manufacture (OEM) of cars and light vehicles. In addition, Hella has exposure to potentially volatile costs for raw materials and components, including plastics and metals, which it needs to manage accordingly. Moreover, the entire automotive supply industry has historically been subject to intense competition and significant price pressure from OEM customers, which requires the continuous optimisation of efficiency, processes and costs. Lastly, Hella will need to continue making significant investments in research and development in order to offer innovative product solutions.

In order to remain adequately positioned at Baa3, Hella would need to maintain: (i) positive FCF generation; (ii) a debt/EBITDA ratio markedly below 3.0x; and (iii) an EBIT/interest expense ratio above 3.0x.

The positive outlook on Hella's ratings reflects the possibility of a rating upgrade over the next 12-18 months, if Hella is able to maintain its profitability and credit metrics at current levels on a sustainable basis.

Moody's could consider upgrading Hella's ratings if the company were to maintain on a sustainable basis (i) a debt/EBITDA ratio close to 2.25x and (ii) an EBIT margin above 5%. Moreover, an upgrade would require Hella to achieve: (i) further positive FCF generation; (ii) an RCF/net debt ratio close to mid 30%; and (iii) a continued balanced financial policy.

Moody's could consider downgrading Hella if (i) the group's profitability were to come under pressure, resulting in negative FCF; and (ii) its debt/EBITDA ratio were to weaken to materially above 3.0x.

The principal methodology used in this rating was Moody's "Global Automotive Supplier Industry Rating Methodology" published in January 2009.

Upgrades:

..Issuer: Hella KGaA Hueck&Co

....Issuer Rating, Upgraded to P-3 from NP

....Senior Unsecured Regular Bond/Debenture, Upgraded to Baa3 from Ba1

....Senior Unsecured Regular Bond/Debenture, Upgraded to Baa3 from Ba1

Assignments:

..Issuer: Hella KGaA Hueck&Co

.... Issuer Rating, Assigned Baa3

.... Issuer Rating, Assigned Baa3

Withdrawals:

..Issuer: Hella KGaA Hueck&Co

....Probability of Default Rating, Withdrawn, previously rated Ba1

....Corporate Family Rating, Withdrawn, previously rated Ba1

....Senior Unsecured Regular Bond/Debenture, Withdrawn, previously rated LGD4, 51%

....Senior Unsecured Regular Bond/Debenture, Withdrawn, previously rated LGD4, 51%

Headquartered in Lippstadt, Germany, Hella KGaA Hueck & Co. is a leading supplier of automotive lighting and electronics components for the automotive industry. In total, these activities, which are undertaken by Hella's Original Equipment division, accounted for 74% of revenues generated by the group in H1 2010/11 (fiscal year ends on 31 May 2011). Moreover, Hella has a strong position in the European aftermarket, i.e. the distribution and wholesale of spare parts and components, and also supplies non-automotive manufacturers with components for the production of original equipment (e.g. in the agriculture, mining, bus or marine segment). These activities are undertaken by Hella's Aftermarket & Special OE division, which accounted for 26% of revenues generated by the company in H1 2010/11. Europe remains the most important region for Hella, accounting for 71% of its H1 2010/11 revenues. However, given the number of cars produced in Europe that are exported, Hella's reliance on the European market is notably lower.

Hella is family owned and revenues for the last-twelve-month period ending November 2010 were EUR3.8 billion. The company employs approximately 23,000 people at more than 70 manufacturing facilities, production subsidiaries and joint ventures in more than 30 countries.

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