

Rating object

Italgas S.p.A.

Long Term Local Currency Senior unsecured issues of Italgas S.p.A.

Rating incl. outlook / watch

BBB+ / negative

BBB+ / negative

The present update is, in the regulatory sense, a public unsolicited rating.

Date of inception / disclosure to rated entity / maximum validity:

Rating object	Date of inception	Disclosure to rated entity	Maximum validity
Italgas S.p.A.	17.01.2022	17.01.2022	Until withdrawal of the rating
Long Term Local Currency Senior unsecured issues of Italgas S.p.A.	17.01.2022	17.01.2022	Until withdrawal of the rating

There occurred no changes after the communication of the rating to the rating object.

Rating summary:

Creditreform Rating (CRA) has confirmed the unsolicited corporate issuer rating of Italgas S.p.A. and the unsolicited corporate issue ratings of the long-term local currency senior unsecured notes issued by Italgas S.p.A. at **BBB+** with a **negative** outlook. In this press release we also refer to the detailed report dated 8 February 2021, which contains further material information with regard to Italgas S.p.A.

The current rating attests Italgas S.p.A. a highly satisfactory level of creditworthiness, representing a low-to-medium default risk. Our rating assessment reflects Italgas' strong market position and significant market share in gas distribution in Italy, positive business development in the first nine months of 2021, as well as the upcoming business expansion in the Greek market through the acquisition of DEPA Infrastructure S.A. The Group benefits from a stable and supportive regulatory framework, earns roughly 96% (2020) of its revenues in a regulated environment and thus generates solid and predictable cash flows. Our assessment of the direct and indirect shareholder structure and an assumed degree of systemic importance for Italgas S.p.A. shows the close relationship with the Italian government and thus the classification as a state-affiliated company, which was decisive for the rating. The Corporate issuer rating of Italgas S.p.A. according to our sub-rating methodology for "Government-Related Companies" is currently constrained to two notches above the unsolicited sovereign rating of the Italian Republic (CRA: **BBB-** / **negative** as of March 5, 2021). Any change in the sovereign rating of the Italian Republic could affect Italgas S.p.A.'s corporate issuer rating.

Despite the social and economic restrictions due to the coronavirus state of emergency in early 2020, as well as the negative impact of the new regulatory framework which started on 1 January 2020 and will last until the end of 2025, the Company again increased its 2020 revenue by 13.1% to EUR 2,058.4 million (2019: EUR 1,820.0 million) and EBITDA by 13.4% to EUR 1,047.5 million (2019: EUR 923.8 million). The key factors here were cost optimization and the full consolidation of Toscana Energia in 2020, while in 2019 it was consolidated using the equity method up to the third quarter. Due to the EUR 99.3 million decrease in net income from equity investments compared to the previous year, EAT in 2020 fell from EUR 423.6 million to EUR 403.6 million. The adjusted net profit attributable to the Group remained almost unchanged at EUR 345.4 million (2019: EUR 345.2 million).

Capex amounted to EUR 777.5 million (2019: EUR 740.0 million), which was largely financed by operating cash flow of EUR 745.0 million. Considering the dividend payment of EUR 207.1 million and the change in financial liabilities, the Group's net financial debt increased by EUR 251.2 million to EUR 4,736.5 million at the end of 2020 (2019: EUR 4,485.3 million). The analysis of the structured financial ratios for 2020 shows overall stable development compared to the previous year, despite the smaller deviations. As an example, the Creditreform Rating adjusted equity ratio as of 31 December 2020 was 24.7% (2019: 25.6%) and the ratio of net total debt / EBITDA adj. came to 6.1 (2019: 6.7).

Between January and September 2021, the Group achieved a revenue of EUR 1,005.7 million, 2.8% more than in the same period of 2020 (EUR 978.0 million). EBITDA and EAT for the first three quarters of 2021 increased by 4.9% and 7.8% respectively, to EUR 749.0 million (9m 2020: EUR 714.3 million) and EUR 282.1 million (9m 2020: EUR 261.7 million). The positive development compared to the previous year results from the progressive easing of restrictions in relation to the restrictive measures of the COVID-19 emergency and the general economic recovery.

In the first nine months of 2021, cash flow from operating activities amounted to EUR 533.7 million (9m 2020: EUR 441.0 million). Due to the high net investments of EUR 582.7 million (9m 2020: EUR 562.6 million), there was again a negative free cash flow of EUR -53.0 million at the end of September 2021 (9m 2020: EUR -131.0 million). After the dividend payments made, the Group's net financial debt increased by 6.7% to EUR 5,055.4 million as of 30 September 2021 (31.12.2020: EUR 4,736.5 million).

As of 30 September 2021, the Italgas Group's fixed-rate financial liabilities increased by EUR 705.2 million to EUR 5,381.5 million compared to EUR 4,676.3 million as of 31 December 2020. The main factor was the dual-tranche bond issue totaling EUR 1,000 million, which was partially offset by

the repurchase of bonds for a total of EUR 255.7 million. As a result, on 12 March 2021 Italgas terminated the revolving credit facility in the amount of EUR 500 million with a term until October 2021, completely unused. Due to the lower utilization of bank credit lines, variable-rate financial liabilities fell from EUR 728.8 million (31.12.2020) to EUR 355.0 million (30.09.2021). Against the background of the cash balance of EUR 676.0 million and the signing of two medium-term ESG loans, which amount to a total of EUR 500 million in October 2021, as well as the available financing lines due to the diversified maturity structure of the corporate financing and the Company's established access to the capital market, we see the liquidity situation of Italgas currently as unproblematic. The purchase of 100% of the capital of DEPA Infrastructure S.A. in the international public tender is also expected to be financially covered. The purchase price amounts to EUR 733 million. Gross Capex should amount to EUR 1.1 billion by 2030. The transferred assets include more than 460 thousand delivery points in Greece and approximately 6,400 km of low-pressure networks. The acquisition of DEPA Infrastructure offers Italgas a geographic diversification of its activities, conforms to the regulated core business profile and is consistent with the Group's strategic vision. The current regulatory period in Greece will rollover at the end of 2022.

Nevertheless, it is critical to note that, due to the high investments in connection with the increasing dividends, we see difficulties at Italgas in generating a positive free cash flow, which in turn will lead to a significant increase in net debt in the next few years and may consequently have a negative impact on the rating.

Based on the unsolicited corporate issuer rating of Italgas S.p.A. (**BBB+ / negative**), Creditreform Rating has conducted unsolicited corporate issue ratings of notes (ISIN) issued by Italgas S.p.A. The rating objects in question are exclusively the long-term senior unsecured issues denominated in euro, which have been issued by Italgas 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 ECBs website. All the following issues (ISIN) are rated with **BBB+ / negative**.

Primary key rating drivers:

- + Leading gas transmission system operator in Italy
 - + Stable and reliable cash flows from gas distribution businesses
 - + Transparent regulatory framework
 - + Good access to financial markets
 - + Positive business development in the first nine months of 2021
 - + Adequate liquidity reserves
 - + Diversification of the business into regulated gas distribution in Greece
-
- Unsolicited sovereign rating of the Italian Republic of **BBB- / negative** limits the corporate issuer rating of Italgas S.p.A.
 - Increasing net debt
 - High levels of Investment: in the first nine months of 2021 Capex higher than operating cash flow
 - High dividend distribution

ESG-criteria:

CRA generally considers ESG factors (environment, social and governance) within its rating decisions. In the case of Italgas S.p.A. we have not identified any ESG factor with significant influence. Although we have not identified any rating-relevant ESG factors for Italgas, ESG factors play an important role for the Company.

Italgas intends to play a leading role in the energy transition and climate protection in Italy. Accordingly, Italgas' Strategic Plan 2021-2027 is in line with the energy scenario anchoring the EU's target of "net zero carbon" by 2050. This Strategic plan highlights the following main objectives:

- Digitalisation of the infrastructure for the distribution of renewable and carbon-free gases
- Promotion of the circular economy
- Develop technologies that will make new renewable gases available in the distribution networks
- Promotion of operational energy efficiency

In terms of its set sustainability goals, Italgas exceeds the EU targets set for 2030. Thus, by 2027, the Group aims to reduce its greenhouse gas emissions (Scope 1 and Scope 2) by 30% and its energy consumption by 25% compared to 2020 levels. In addition, the commissioning of combined heat and power plants and turbo-expanders at the city's main gates, which enable the use of self-generated electricity, is expected to significantly reduce net electricity consumption as early as 2022.

Overall, we consider Italgas to be well-positioned with regard to ESG factors, but do not identify any significant influence on the rating. In the future, ESG factors may have an impact on our rating assessment, depending on the Company's achievement of self-imposed targets.

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](#).

Rating scenarios:

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.

Best-case scenario: BBB+

In our best-case scenario for one year, we assumed a rating of BBB+. Such a scenario could occur if the Company's favorable performance continues without deterioration of the Group's financials or a significant increase in debt burden, and if our sovereign rating of Italy remains at BBB-. An upgrade would seem to be possible only based on an improvement in the sovereign rating of the Italian Republic, together with Italgas maintaining or improving its current key figures. We currently see this as unlikely within one year.

Worst-case scenario: BBB

In our worst-case scenario for one year we have assumed 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, with negative consequences for Italgas' assets and its financial and earnings positions.

Analysts / Person approving (PAC):

Name	Function	Email-Address
Natallia Berthold	Lead analyst	N.Berthold@creditreform-rating.de
Artur Kapica	Analyst	A.Kapica@creditreform-rating.de
Philipp Beckmann	PAC	P.Beckmann@creditreform-rating.de

Initial rating:

Rating object	Event	Rating created	Publication date	Monitoring until	Result
Corporate Issuer Rating of Italgas S.p.A.	Initialrating	08.02.2021	11.02.2021	16.01.2022	BBB+ / negative
LT LC Senior Unsecured Issues issued by Italgas S.p.A.	Initialrating	08.02.2021	11.02.2021	16.01.2022	BBB+ / negative

Status of solicitation and information basis:

The present rating is, in the regulatory sense, a public **unsolicited** rating. 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

Rating methodology / Version / Date of application:

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

Regulatory requirements:

In 2011 Creditreform Rating AG was registered within the European Union according to EU Regulation 1060/2009 (CRA-Regulation). Based on the registration Creditreform Rating AG (CRA) is allowed to issue credit ratings within the EU and is bound to comply with the provisions of the CRA-Regulation. The rating¹ was not endorsed by Creditreform Rating AG (Article 4 (3) of the CRA-Regulation).

Conflicts of interest

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](#).

¹ 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.

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

Disclaimer

Any rating performed by Creditreform Rating AG is subject to the Creditreform Rating AG Code of Conduct, which has been published on the web pages of Creditreform Rating AG. In this Code of Conduct, Creditreform Rating AG commits itself – systematically and with due diligence – to establish its independent and objective opinion as to the sustainability, risks and opportunities concerning the enterprise or the issue under review.

Future events are uncertain, and forecasts are necessarily based on assessments and assumptions. This rating is therefore no statement of fact, but an opinion. For this reason, Creditreform Rating AG cannot be held liable for the consequences of decisions made on the basis of any of their ratings. Neither should these ratings be construed as recommendations for investors, buyers or sellers. They should only be used by market participants (entrepreneurs, bankers, investors etc.) as one factor among others when arriving at corporate or investment decisions. Ratings are not meant to be used as substitutes for one's own research, inquiries and assessments.

We have assumed that the documents and information made available to us by the client are complete and accurate and that the copies provided to us represent the full and unchanged contents of the original documents. Creditreform Rating AG assumes no responsibility for the true and fair representation of the original information.

This report is protected by copyright. Any commercial use is prohibited without prior written permission from Creditreform Rating AG. Only the full report may be published in order to prevent distortion of the report's overall assessment. Excerpts may only be used with the express consent of Creditreform Rating AG. Publication of the report without the consent of Creditreform Rating AG is prohibited. Only ratings published on the Creditreform Rating AG web pages remain valid.

Creditreform Rating AG

Contact information

Creditreform Rating AG

Europadamm 2-6
D-41460 Neuss

Phone: +49 (0) 2131 / 109-626
Telefax: +49 (0) 2131 / 109-627

E-Mail: info@creditreform-rating.de
Web: www.creditreform-rating.de

CEO: Dr. Michael Munsch
Chairman of the Board: Michael Bruns

HR Neuss B 10522