

**Rating object**

Snam S.p.A.  
Long Term Local Currency Senior Unsecured Issues of Snam S.p.A.

**Rating incl. outlook / watch**

BBB+ / stable  
BBB+ / stable

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
Snam S.p.A.	15.08.2022	15.08.2022	Until withdrawal of the rating
Long-Term Local Currency Senior Unsecured Issues of Snam S.p.A.	15.08.2022	15.08.2022	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 Snam S.p.A. (hereinafter also referred to as 'the Company' or 'Snam') and the unsolicited corporate issue ratings of the long-term local currency senior unsecured notes issued by Snam S.p.A. at **BBB+**, and changed the outlook from **negative** to **stable**. In this press release we also refer to the detailed report dated 14 June 2021, which contains further material information with regard to Snam S.p.A.

The current rating attests Snam S.p.A. a highly satisfactory level of creditworthiness, representing a low-to-medium default risk. The decisive factors for the rating assessment are the fundamentally solid operational and financial performance and the stable cash flow generation, which almost exclusively stem from its regulated activities and is somewhat protected from market fluctuations, which should ensure comparatively stable business development in 2022-2023 despite challenging market conditions. The revision of the outlook is based on the change in outlook of the unsolicited sovereign rating of the Italian Republic from negative to stable. Snam enjoys a business profile with essentially low economic and financial risks and benefits from an established regulatory framework (represented by the independent regulator ARERA) in Italy. Moreover, the Company is of strategic importance for Italy and assumes a key position in the country's energy transition. Given Snam's strong market position as owner of almost the entire Italian gas transmission network, as well as its significant market share in gas transmission, storage and regasification services, the Company plays an increasingly central role in securing and diversifying Italy's energy supply in a currently uncertain energy policy environment.

On the other hand, a negative consideration factored into the rating is Snam's geographic concentration, as nearly all revenues are generated domestically, leaving it highly exposed to Italy's macroeconomic and political conditions. In particular, the political uncertainty related to the end of the Draghi government on 21 July 2022 and early elections on 25 September 2022, as well as a possible stop of gas supplies from Russia, could significantly weaken the Italian economy, which could also have a negative impact on Snam's rating. Additionally, Snam's investment needs will increase in the coming years in light of the sector's renewable energy transition, which could negatively affect its credit metrics. Furthermore, there are industry-related risks heightened due to the increasingly aggravated geopolitical risks, especially against the background of the Russia-Ukraine war and high volatility in electricity and gas prices.

Finally, Snam's rating is also constrained by the unsolicited sovereign rating of the Italian Republic (CRA: **BBB-** / **stable** as of 11 February 2022). Based on our rating methodology government-related companies, Snam's rating can exceed the sovereign rating of Italy by up to two notches. A downgrade of the Italian Republic would therefore currently lead to a downgrade for the corporate issuer rating of Snam S.p.A.

Against the backdrop of economic recovery and a weather-related increase in consumption, and despite a rapid increase in wholesale energy prices in Europe, Snam increased its revenues in 2021 by 19.3% to EUR 3,285 million (2020: EUR 2,753 million). After deducting the variable charges to cover energy costs, which jumped significantly in the second half of 2021 to EUR 311 million (2020: EUR 60 million), the Company recorded a 10.2% increase in revenues compared to the previous year. The rise in revenues were mainly due to higher revenues from regulated and new business, especially related to energy efficiency. As a result of the positive development of Snam's core business EBITDA rose by 4.2 % to EUR 2,243 million (2020: EUR 2,153 million). The higher EBIT (+ EUR 43 million) as well as the positive input from the associated companies (+ EUR 47 million), as well as the decrease in the financial result (- EUR 50 million), contributed to an improvement in EBT by 9.0 % to EUR 1,615 million (2020: EUR 1,471 million). Income taxes amounted to EUR 400 million (2020: EUR 383 million), which after the deduction of EUR 292 million (the effects of the tax realignment pursuant to Decree-Law no. 104 of 14 August 2020), led to the Group's EAT increasing by 36.2% to EUR 1,500 million compared to the previous year, at EUR 1,101 million. Excluding this deduction, EAT adj. amounted to EUR 1,222 million, which corresponds to an increase of 5.0% compared to the previous year (EAT adj. 2020: EUR 1,164 million).

As of 31 December 2021, Snam enjoyed a good liquidity position. In addition to cash and cash equivalents of EUR 1,337 million, the Company had undrawn long-term committed lines as of EUR 3,350 million as well as liquidity from a dual tranche sustainability-linked bond issue in early 2022 for a total of EUR 1,500 million, less the repayment of outstanding notes to proactively manage future liabilities associated with a liability management exercise of EUR 350 million, allowing Snam to cover its financial debt by the end of 2023. The analysis of the structured key financial ratios for 2021 shows a slight deterioration compared to the previous year, despite the Company's positive revenue and earnings development. This is mainly due to significantly higher net total debt / EBITDA adjusted ratio of 8.2 (2020: 7.4). At the same time, the CRA-adjusted equity ratio of 25.9% and the leverage of 3.9 remained at the same level.

During 2022, industry risks increased due to possible disruptions in oil and gas supply chains, exacerbated by the outbreak of war in Ukraine, resulting in significant price volatility with an upward trend. As of 10 August 2022, natural gas traded 196.2 EUR/MWh<sup>1</sup>, an increase of 357% year-on-year (10 August 2021: 42.9 EUR/MWh). Italy relies heavily on imported gas from Russia, as roughly 38% of the national demand is met by Russian gas imports. A significant and prolonged interruption of supply from Russia would lead to the country having to resort to other sources of supply besides stockpiles (as of 10 August 2022: 75.4%<sup>2</sup>) and, if this is not sufficient, the activation of emergency measures. However, Italy is in a better position than other vulnerable European countries given its LNG terminals and pipeline connections to North Africa, Northern Europe and Central Asia. This already existing infrastructure allows Italy to use alternative gas supply sources and offers different options without having to significantly invest in new infrastructure. In addition, the Italian government has made significant efforts to diversify gas supplies through agreements with countries in Africa and the Middle East.

Against this backdrop, Snam has concluded the agreements for the purchase of two new floating storage and regasification units (FSRU) to facilitate the diversification of energy supply. In addition, the Company has injected about 2 billion cubic meters of gas to fill the storage facilities. Given the uncertain geopolitical and energy policy environment, Snam is increasingly gaining in importance for securing and diversifying the energy supply in Italy.

Snam is not active in the Russian market; however, two foreign subsidiaries of Snam Trans Austria Gasleitung GmbH "TAG" (84.5%) and Gas Connect Austria GmbH "GCA" (49.0%) are the most dependent on Russian gas based on multi-year transport contracts. However, a prolonged suspension of imports and/or the termination of existing long-term contracts may be reflected in a reduction of investees' economic contribution to the Group, but the Company estimates that this will have only a limited impact on Snam's results of operations and financial position in 2022.

In the currently challenging market environment, the Snam Group achieved reported revenues of EUR 1,680 million in the first half of 2022, 10.0% higher than in the same period of 2021 (EUR 1,527 million). This increase is mainly due to positive development from new business. While the EBITDA of EUR 1,139 million was broadly consistent with the same period last year of EUR 1,159 million, EBIT fell by 6.7% to EUR 707 million due to the commissioning of new plants. Given the favorable performance of the associated companies, the Group's EBT increased by 4.8% to EUR 888 million (30.06.2021: EUR 847 million). However, EAT dropped by 21.7 % compared to the previous year, amounting to EUR 689 million (30.06.2021: EUR 880 million).

As of 30 June 2022, cash flow from operating activities amounted to EUR 2,318 million (30.06.2021: EUR 566 million), mainly due to the positive development of working capital from balancing activities (temporary) and tariff-related items, partly offset by tax incentives for energy efficiency credit. After deducting net investments of EUR 569 million, which included Capex, disbursement for the first FRSU, OLT shareholders loan cash in and the De Nora IPO, the free cash flow totaled EUR 1,749 million (30.06.2021: EUR -467 million). After dividend payments of EUR 844 million and non-monetary changes of EUR 294 million, net financial debt decreased by EUR 1,199 million compared to 31 December 2021, from EUR 14,021 million to EUR 12,822 million.

Taking into account rising energy prices in the industrial sector and the forecast warmer temperatures, Snam expects natural gas demand in Italy to decrease compared to 2021. Nonetheless, based on its good business performance in the first half of 2022 and assuming a stable contribution from the Austrian associated companies, Snam has raised its net profit guidance to a minimum of EUR 1.13 billion. The achievement of this forecast remains to be seen due to the challenging business environment as well as the uncertain political environment in Italy; should the political instability in Italy continue to escalate, this could lead to a downgrade of Snam's rating.

Based on the unsolicited corporate issuer rating of Snam S.p.A. (BBB+ / stable), Creditreform Rating has conducted unsolicited corporate issue ratings of notes (ISIN) issued by Snam S.p.A. The rating objects in question are exclusively the long-term senior unsecured issues denominated in euro, which have been issued by Snam 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 at BBB+ / stable.

<sup>1</sup> [EU Natural Gas - 2022 Data - 2010-2021 Historical - 2023 Forecast - Price - Quote \(tradingeconomics.com\)](https://tradingeconomics.com)

<sup>2</sup> [Gas Infrastructure Europe - AGSI+ \(gie.eu\)](https://gie.eu)

**Primary key rating drivers:**

- + Strategic importance for Italy
- + Transparent and stable regulatory framework with guaranteed revenues and predictable cash flows
- + Positive performance in 2021 and H1 2022
- + Sufficient liquidity reserves
- + Optimization of the financial structure
- + De Nora IPO
- + Good access to financial markets
  
- Political uncertainties due to reform risks in Italy
- Geographical concentration, as almost all revenues are generated domestically
- Unsolicited sovereign rating of the Italian Republic of **BBB- / stable** limits the corporate issuer rating of Snam S.p.A.
- Increasing net debt in 2021
- High levels of Investment: net investments of EUR 8.1 bn. in the period 2021-2025
- High dividend distribution
- Russia-Ukraine war increases risk of gas supply disruption

**ESG-factors**

CRA generally considers ESG factors (environment, social and governance) within its rating decisions. In the case of Snam S.p.A. we have not identified any ESG factor with significant influence.

However, in the short- and especially in the medium- and long-term, sustainability aspects are central to the strategic and operational development of the Snam Group. In 2020, the Snam Group set itself the ambitious climate goal of becoming carbon neutral by 2040. The Company aims to reduce the Group's direct and indirect emissions (scope 1 and 2) by 50% between 2018 and 2030. In terms of indirect emissions (scope 3), the Group intends to reduce emissions by its affiliated companies by 46% by 2030 and those of its suppliers by 55% compared to a 2019 baseline. This is to be achieved by increasing activities related to biomethane and hydrogen, energy efficiency initiatives and sustainable CNG and LNG mobility projects. The Company plans to transport fully-decarbonized gas by 2050 and make Italy a renewable energy hub.

Due to the acceleration of investments in storage and green projects, Snam has increased its investments by EUR 0.7 billion to EUR 8.1 billion for the period 2021-2025 compared to the previous development plan of the system and the energy transition. Most of the Company's investments relate to its sustainability goals. About 47% of the Company's planned investments meet the criteria of the European taxonomy. In addition, up to EUR 23 billion will be allocated to the development of energy networks, energy storage and green projects by 2030. Snam also intends to increase the weight of sustainable financing to over 80% of the available funds by 2025. By the end of 2021, this percentage should already be 60% (or roughly EUR 11 billion of committed funding).

Even though we derive financial risks for the Snam Group from these targets, we see the Company overall on a satisfactory path. We believe that Snam S.p.A., due to its business model, will play an important role in the implementation of the Italian and European climate targets. Moreover, the Company's actions regarding CO<sub>2</sub> emissions seem to indicate, in our view, the right trend. The coming years will show whether this will have a material impact on the rating.

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 would occur if the Company is able to sustain growth in operating results and if the debt and liquidity profile do not deteriorate in a higher investment phase. This scenario also assumes the stability of macroeconomic and political conditions in Italy and that the sovereign rating of Italy remains at BBB-. An upgrade is unlikely, as the rating is constrained by the sovereign rating of the Italian Republic.

Worst-case scenario: BBB

In our worst-case scenario for one year, we assume a rating of BBB. Such a scenario would materialize if the sovereign rating of the Italian Republic were downgraded or if the level of general business activity deteriorates, either due to an economic slowdown and a resulting environment of diminished demand environment, or due to a disruption in gas supply.

**Analysts / Person approving (PAC):**

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**Initial rating:**

Rating object	Event	Rating created	Publication date	Monitoring until	Result
<b>Corporate Issuer Rating of Snam S.p.A.</b>	Initial rating	22.10.2018	05.11.2018	23.11.2020	BBB+ / stable
<b>LT LC Senior Unsecured Issues issued by Snam S.p.A.</b>	Initial rating	22.10.2018	05.11.2018	23.11.2020	BBB+ / stable

**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
<a href="#">Corporate Ratings</a>	2.4	01.07.2022
<a href="#">Government-related Companies</a>	1.0	19.04.2017
<a href="#">Non-financial Corporate Issue Ratings</a>	1.0	October 2016
<a href="#">Rating Criteria and Definitions</a>	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 rating<sup>3</sup> was not endorsed by Creditreform Rating AG (Article 4 (3) of the CRA-Regulation).

<sup>3</sup> 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.

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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

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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](#).

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

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