

Rating object	Rating information	
Italgas S.p.A. Creditreform ID: 400981239 Incorporation: 20.10.2016 Based in: 12.09.1837 Main (Industry): Natural gas distribution service CEO: Paolo Gallo <u>Rating objects:</u> Long-Term Corporate Issuer Rating: Italgas S.p.A. Long-Term Local Currency (LT LC) Senior Unsecured Issues	Corporate Issuer Rating: BBB+ / negative	Type: Initial rating Unsolicited Public rating
	LT LC Senior Unsecured Issues: BBB+ / negative	Other: n.r.
	Rating date: 08 February 2021 Monitoring until: withdrawal of the rating Rating methodology: CRA "Corporate Ratings" CRA "Non-Financial Corporate Issue Ratings" CRA "Government Related Companies" CRA "Rating Criteria and Definitions"	Rating history: www.creditreform-rating.de

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Summary

Company

Italgas S.p.A. (hereinafter also referred to as 'the Company' or 'Italgas') is the Italian market leader in natural gas distribution for domestic and industrial use. In 1967 Italgas became part of the Eni Group, focused on the construction of gas distribution networks, and took the leadership role in developing methanization processes in Italy. After being sold off by Eni, Italgas became part of the Snam Group from July 2009 until its demerger in November 2016. The aim of the demerger was to separate the Italian gas distribution activities of the Snam Group from its gas transportation, dispatching, regasification, and storage activities in Italy and abroad. The Italgas Group's gas distribution business operates on concessions from local public authorities. The Company transports gas via medium and low-pressure pipeline networks from pressure-reduction stations (city gates) to end customers. With 1,830 municipal concessions, Italgas managed roughly 71,761 kilometers of gas distribution network in 2019 and served over 7.5 million end customers. As of 31 December 2019, the RAB (Regulatory Asset Base) of Italgas amounted to approx. EUR 7.4 billion. The Group's current market share in terms of delivery points is around 35%.

With revenues amounting to EUR 1,820.0 million in 2019 (2018: EUR 1,583.8 million), the Company achieved an EBITDA of EUR 923.8 million (2018: EUR 854.7 million) and an EAT of EUR 423.6 million (2018: EUR 313.7 million). Between 95% and 98% of the Group's revenues come from regulated activities. As of 31 December 2019, the Group employed 4,096 people (2018: 3,667).

Rating result

The current rating attests Italgas S.p.A. a highly satisfactory level of creditworthiness, representing a low-to-medium default risk. The Group reports stable revenues, strong margins, and generates positive cash flows. Despite the weakening Italian economy, we believe that the regulatory stability of Italgas' operations and the Company's leading position in the Italian gas distribution sector are more decisive than the sovereign rating for Italy. For this reason, given the Company's stable performance and the results of our analysis of Italgas' key financial data over recent years, and based on the results of the nine months of the 2020 financial year, we have assigned the Group a corporate rating two notches above the sovereign rating for Italy; Italgas' rating is, however, constrained by the unsolicited sovereign rating of the Italian Republic (CRA: **BBB- / negative** as of August 21, 2020).

Outlook

The one-year outlook for the rating is **negative**. The Company operates mainly in Italy, due to which we see a significant dependence on the country's overall economic situation. Additionally, the government holds a significant share of the Group. Based on our assessment of the direct and indirect shareholder structure, and the systemic relevance of Italgas S.p.A., the sub-rating methodology for "Corporate Issuer Ratings", "Government-Related Companies" was applied. The corporate issuer rating of Italgas S.p.A is currently constrained to two notches above the rating of the Italian Republic (CRA: **BBB-** / **negative** as of August 2020). Therefore, a further downgrade of the Italian Republic would lead to a downgrade for the corporate issuer rating of Italgas S.p.A. As the current outlook for the sovereign rating of the Italian Republic is **negative**, this is in line with the outlook for our corporate issuer rating of Italgas S.p.A.

Reference:

The relevant rating factors (key drivers) mentioned in this section are predominantly based on internal analyses, evaluations during the rating process, the derived valuations by the analysts participating in the rating and, where applicable, other rating committee members. The fundamental external sources used are specified in the section "Regulatory requirements", and "Rules on the presentation of credit ratings and rating outlooks".

Excerpts from the financial key figures analysis 2019:

- + Increased revenues
- + Solid cash flows from operating activities
- + Low ratio of interest expenses to total debt
- Deterioration in net total debt / EBITDA adj.
- Higher capital and short-term capital lock-up

General rating factors summarize the key issues that – according to the analysts as per the date of the rating – have a significant or long-term impact on the rating, positive (+) as well as negative (-).

Relevant rating factors

Table 1: Financials of Italgas Group | Source: Italgas S.p.A. Financial Report 2019, standardized by CRA

Italgas S.p.A. Selected key figures of the financial statement analysis Basis: Consolidated Financial Statements of 31.12. (IFRS)	CRA standardized figures ¹	
	2018	2019
Sales (million EUR)	1,583.8	1,820.0
EBITDA (million EUR)	854.7	923.8
EBIT (million EUR)	455.2	518.0
EAT (billion EUR)	313.7	423.6
EAT after transfer (million EUR)	313.7	417.2
Total assets (million EUR)	7,077.8	8,511.9
Equity ratio (%)	24.5	25.6
Capital lock-up period (days)	85.1	106.2
Short-term capital lock-up (%)	33.4	43.4
Net total debt / EBITDA adj. (Factor)	6.1	6.8
Ratio of interest expenses to total debt (%)	0.9	1.1
Return on investment (%)	5.1	5.8

General rating factors

- + Leading gas transmission system operator in Italy
- + Stable and reliable cash flows from gas distribution businesses
- + Transparent regulatory framework
- + Good access to financial markets
- Low regional diversification
- Uncertainties accompanying the expiration and renewal of gas distribution concessions
- Ongoing investments required
- Dependent on regulatory changes

¹ For analytical purposes, CRA adjusted the original values in the financial statements in the context of its financial ratio analysis. For example, when calculating the analytical equity ratio, deferred tax assets, goodwill (entirely or partly), and internally generated intangible assets are subtracted from the original equity, whilst deferred tax liabilities are added. Net total debt considers all balance sheet liabilities. Therefore, the key financial figures shown often deviate from the original values of the company.

- Country risks

Current rating factors

- + Stable performance in 2019 and the first nine months of 2020
 - + ARERA confirmed the WACC for gas distribution services for 2020, after increasing it to 6.3% in 2019
 - + Adequate liquidity reserves
 - + Despite a decline, high profitability
 - + Partially robust business model and short-term agile measures during the COVID-19 crisis
 - + Well-defined strategic plan (2020-2026)
- Increasing net debt
 - Equity ratio in need of improvement
 - In the first nine months of 2020 Capex higher than operating cash flow
 - High dividend distribution

Prospective rating factors

- + Growth of the RAB and hence of the income basis
 - + Realization of synergies and economies of scale through further optimization
 - + Improvement of Italy's sovereign rating
- Negative changes in regulatory environment
 - High levels of Investment: capex of EUR 7.5 billion over 2020-2026
 - Remaining risks from the further course of the COVID-19 pandemic
 - Lower sovereign rating of Italy

ESG-factors

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.

Based on the sustainability report of Italgas and the other documents available to us, we currently assess the risks from ESG factors in relation to the rating object as manageable. As a gas network operator, the Company shows relatively low CO₂ emissions as well as energy and water consumption, but due to its business model Italgas is dependent on environmentally harmful suppliers (gas producers).

Through numerous measures, Italgas strives to retain its employees in the long term, achieve a high level of customer satisfaction, and to uphold human rights. In addition, the Company is socially committed and increasingly focused on sustainability by supporting projects in the areas of education, development and the environment.

At 14.1%, the proportion of women in the Group is still capable of further improvement, although this is also due to the nature of the industry and, given the size of the Group, has not yet had any influence on our rating decision.

Current rating factors are the key factors that, in addition to the underlying rating factors, have an impact on the current rating.

Prospective rating factors are factors and possible events that – according to the analysts as of the date of the rating – would most likely have a stabilizing or positive effect (+), or a weakening or negative effect (-) on future ratings, if these factors occurred. This is not an exhaustive list of possible future events with potential relevance for future ratings. Circumstances can arise that are not included in the list of prospective factors whose effects are impossible to assess at the time of the rating, either because these effects are uncertain or because the underlying events are deemed unlikely to occur.

ESG factors are factors related to environment, social issues and, governance. For more information, please see the "Regulatory requirements". CRA generally takes ESG relevant factors into account when assessing the rating object, and discloses them when they have a significant influence on the creditworthiness of the rating object, leading to a change in the rating result or outlook.

We take a positive view of a concretization of the ESG / sustainability goals. The Company aims to reduce CH₄ (methane) emissions by 20% by 2026, thereby contributing to the transition to a carbon-free economy in Italy.

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](#).

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's good performance continued 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 would materialize if the sovereign rating of the Italian Republic were downgraded, or if the level of general business activity deteriorated, with negative consequences for Italgas' assets and its financial and earnings positions.

Business development and outlook

During the business year 2019, the Italgas Group achieved positive results. Total revenues rose by 14.9% to EUR 1,820.0 million (2018: EUR 1,583.8 million), the EBIT by 13.8% to EUR 518.0 million (2018: EUR 455.2 million) and EAT by 35.0% to EUR 423.6 million (2018: EUR 313.7 million). The increase in sales is mainly due to the contribution of newly consolidated companies in the amount of EUR 47.5 million, as well as higher distribution revenues as a result of the tariff adjustments in the amount of EUR 44.0 million. In contrast, the other gas distribution regulated revenues decreased by EUR 39.9 million. In addition, the positive revenue development was partially offset by increased expenses in connection with concessions (+EUR 8.0 million compared to the previous year) and net costs for energy efficiency certificates (+EUR 5.5 million compared to the previous year), as well as by EUR 5.5 million higher amortization / depreciation and impairment as compared to the previous year. The net financial expenses rose to EUR 69.3 million (31.12.2018: EUR 47.0 million), mainly due to one-off expenses from the bond buyback transaction of EUR 18.3 million, as well as increased interest expenses in connection with bonds, loans and derivative transactions issued. Despite the EUR 22.3 million increase in net financing expenses compared to the previous year, the net financial result rose in 2019 to EUR 31.5 million (31.12.2018: EUR -27.0 million). The decisive factor here was the revaluation of the stake in Toscana Energia in the amount of EUR 85.9 million. As a result of the increased operating profit and net financial result, EAT increased in 2019 from EUR 313.7 million to EUR 423.6 million. The adjusted net profit attributable to the Group amounted to EUR 345.2 million (2018: EUR 315.5 million).

Cash flow from operating activities amounted to EUR 697.2 million (2018: EUR 718.7 million). Capex amounted to EUR 740.0 million (2018: EUR 522.7 million), corresponding to an increase

of 41.6% compared to the previous year. 62.6% of investments were made for development and modernization, 24.2% for the digital transformation of the network, with the remaining 13.2% mainly related to IT, real estate and vehicle investments. Investment requirements were financed by additional borrowing, with the result that net financial debt rose from EUR 3,885.2 million to EUR 4,485.3 million in 2019.

Italy was the first country in Europe to be heavily affected by the COVID-19 outbreak in early 2020. In February, Italy announced a coronavirus state of emergency and implemented social and economic restrictions in order to curb the spread of the virus. In light of the actions and guidelines by the authorities, the Company has taken many proactive measures to ensure the continuity and efficiency of its services. Since the majority of revenue (more than 95%) is generated from regulated activities, thus providing stable and predictable cash flow generation, Italgas is not exposed to any significant price or volume risks.

Table 2: The development of business of Italgas S.p.A. | Source: Consolidated results for the first nine months of 2020, reported information

Italgas S.p.A.				
In million EUR	9m 2019	9m 2020	Δ	Δ %
Total sales	916.9	978.0	+61.1	+6.7
EBITDA	660.7	715.7	+55.0	+8.3
EBIT	376.9	399.7	+22.8	+6.0
EBT	356.9	360.7	+3.8	+1.1
EAT	262.6	260.5	-2.1	-0,8

In the first nine months of 2020, the Company's revenues increased by 6.7% to EUR 980.0 million (31.09.2019: EUR 916.9 million). In the same period, EBITDA rose by 8.3% to EUR 715.7 million (31.12.2019: EUR 660.7 million) which, despite the slight unfavorable effects of the new tariff period that came into force on 1 January 2020, is largely a result of the change in the scope of consolidation and the cost efficiency program. The slight decrease in EAT by -0.8% to EUR 260.5 million (31.09.2019: EUR 262.6 million) was negatively influenced by the EUR 3.0 million increase in net financial expenses and the EUR 16.0 million lower net income from equity investments.

The medium-term strategy of the Group for 2020-2026 aims to strengthen and further develop its leading position in the gas distribution sector in Italy and abroad in the context of the energy transition. The Company now focuses on the digital transformation of the network. Following the scheduled completion in 2020 of the smart meter replacement, the extensive installation of remote-controlled sensors and valves will be carried out in order to further optimize processes and increase the operational efficiency of the Group. In addition, methanization will continue in Sardinia by promoting the completion of 1,100 km of "native digital" networks for natural gas distribution, creating immediate benefits for the island's economy and local people: Up to 30% savings compared to currently used fuels are estimated. Already, more than 800 kilometers of pipelines on the Island have been laid. Finally, Italgas intends to increase its market share in terms of active redelivery points from 35% to approx. 45% by taking advantage of opportunities offered by tenders.

For the year 2023, Italgas plans to achieve revenue (without service concession arrangements) of EUR 1.7 billion (2026: EUR 2.0 billion), an increase of 31% (resp. 54%) compared to revenues (without service concession agreements) of EUR 1.3 billion generated in 2019. With a constant EBITDA margin of 72% (2026: 73%), a leverage level of 62% (2026: 61%) should be maintained.

The consolidated RAB with the effects of the tenders should be around EUR 10 billion (2026: EUR 11.3 billion) and a dividend payout ratio of up to 65%.

Given Italgas' strong market position and significant market share in the gas distribution business in Italy, we believe that the Company could meet its growth targets over the medium term. The majority of the Group's revenues are derived from transparent and stable cash flows generated by regulated business activities. Nevertheless, the business requires intensive investment in order to adapt to the energy transition, which is associated with high operational risks and financial requirements.

Structural risk

Italgas was founded in Turin on 12 September 1837 under the name Compagnia di Illuminazione a Gaz per la Città di Torino, and has been renamed several times over the years. On 1 June 2016, Italgas S.p.A. was outsourced from Snam S.p.A. and was listed on the FTSE MIB index of the Milan Stock Exchange on 7 November 2016.

The main shareholders are CDP Reti S.p.A. and Snam S.p.A with a share of 26.05% and 13.50%, respectively. CDP Reti S.p.A. is a joint stock company, 59.1% of which belongs to CDP (Casa Depositi e Prestiti), a financial institution controlled by the Italian Ministry of Economy and Finance (80.1% of shares). CDP is engaged in the promotion and development of the Italian economic and industrial system. With the 30.1% interest in Snam held by CDP through its subsidiary CDP Reti S.p.A., CDP indirectly holds a total CDP stake of 30.1% in Italgas. The third-largest shareholder is Lazard Asset Management Llc, with a total share of 8.9%, and the remaining 51.55% are in free float and owned by a variety of shareholders, mainly institutional investors.

The Company is managed by the Board of Directors (currently featuring 9 members) and the Board of Statutory Auditors (currently featuring 5 members). At the end of the fiscal year 2019, the Company employed 4,096 people (2018: 3,667) and reported its financial statements in accordance with IFRS.

The Company's new strategic plan for 2020-2026 defines the following key objectives:

- Digital transformation and technological innovation
- Business development through organic growth and M&A activities
- Further development in the areas of water networks and energy efficiency
- Optimization of its financial structure as well as a growing and sustainable dividend policy

Given the specifics of its main business in the gas distribution sector, Italgas is required to comply with high legislative, regulatory and corporate governance standards. Structural risks are associated with the relevant directives and legal provisions of the European Union and the Italian government, the Italian Parliament, the resolutions of the ARERA, general changes in legislation (including accounting and tax legislation), and with the legal framework (including the Energy Efficiency Certificates regulation). According to publicly available information regarding corporate governance and compliance measures, we assume sufficiently developed structures with regard to risk management, accounting and controlling, and other administrative and operational functional areas, and do not see any core risks related to the Company's structure.

Business risk

Italgas is an integrated Group whose main activity is the distribution of natural gas throughout Italy. The Company's gas distribution service consists of transporting gas on behalf of authorized sales companies for marketing to end customers. Despite the restructuring and consolidation process seen in this sector in recent years, the gas distribution market in Italy nevertheless remains fragmented. According to the ARERA Summary Annual Report 2020 from 17 September 2020, a total of 199 operators were involved in natural gas distribution in 2019, serving roughly 7,211 municipalities with 23.9 million customers. In terms of the percentage of connected end gas users, Italgas Group's market share in gas supply was 34.5% in 2019, making it the leading operator in Italy. In 2019, Italgas and its investee companies distributed 8,897 million cubic meters of gas (2018: 9,098 million cubic meters) and managed a gas distribution network totaling 71,761 kilometers. In the first nine months of 2020, 702 km of new pipelines were laid, and as of 30 September 2020, the gas distribution network of the entire Group comprised 72.719 kilometers.

The Company's gas distribution business is linked to the renewal of gas distribution concessions following the local tender processes, as well as the quantification of reimbursements for the outgoing operator according to the regulations in force. As of 30 September 2020, Italgas Group, including its investee companies, held a total of 1,886 (31.12.2019: 1,822) concessions, of which 1,801 (31.12.2019: 1,736) were in operation. Potential risks such as fines or sanctions can arise from the failure of Italgas, as the concession holder, to fulfil its material obligations, as well as from loss of revenue from expired concessions if the Group does not receive reallocation for these.

Furthermore, measurement activities in natural gas distribution networks are also one of the main activities of the Group. In order to advance the digital transformation of the entire managed network, the replacement of conventional meters with smart meters was resumed from May 2020, despite the delays resulting from the COVID-19 health emergency according to Government Decree (DPCM). As of 30 September 2020, the number of active meters of the Group, including its participating companies, was 7,738 million (30.09.2019: 7,617 million). The total number of meters installed as of 30 September 2020 was 8,667 million (30.09.2019: 8,525 million). In this way, approx. 480 sales networks have already been improved through precise measurement and monitoring.

According to Italian law, the distribution and metering, as well as the implementation of gas services, are regulated and controlled by the independent Italian Energy Authority for Energy, Networks and Environment (ARERA, Autorità di Regolazione, Energia, Reti e Ambiente, formerly AEEGSI). Its tasks include calculating and updating tariffs, and the provision of rules for access to infrastructures and for the delivery of the relative services. The tariff system is designed to cover the capital and operating costs directly related to the respective business activities. It covers remuneration on net invested capital, depreciation allowances, and the authorized operating costs. On the basis of the RAB, the regulator determines the tariffs on an annual basis. The Company is permitted to earn a certain maximum weighted average cost of capital. Each regulatory period has a duration of six years. The revenues are updated in most cases on an annual basis.

From 1 January 2020, the fifth regulatory period for gas distribution and metering services began for the period 2020-2025, which is divided into two periods of three years each. Despite the lower adjustments compared to previous years, the new tariff method offers high visibility and considerable stability for Company forecasts over the first half-period up to 2023, with only the allowed return on the regulated asset base to be updated at the beginning of 2022. We do not,

however, expect any significant changes in the corresponding formula. Nevertheless, changes in Italian and European regulatory systems and legislation could have a significant impact on the operating activities and financial position of the Company. In view of the systemic national relevance of Italgas, we consider extremely negative changes to the tariff system to be rather unlikely.

In addition, all companies that distribute gas and / or electrical energy to users over 50,000 units are obliged to achieve the target for energy consumption defined annually by ARERA. Companies can achieve these targets by directly carrying out specific energy efficiency projects or, alternatively, by acquiring the white certificates "Energy Efficiency Certificates" (EECs) on the market managed by the Gestore dei Mercati Energetici or by bilateral agreements with qualified operators. The negative difference from the acquisition of energy efficiency certificates at excessively disadvantageous conditions, and the sanctions in the event of failure to meet the energy efficiency target, can result in considerable costs with a negative effect on the economic and financial situation of the Company.

Overall, we assess the Italgas Group as having a low to moderate business risk profile, as the Company is a leading gas distributor in Italy and operates in a regulated environment. The Group operates a well-developed and constantly evolving business risk management system which is in line with current market and regulatory requirements and is supported by many years of experience in the industry.

Financial risk

For analytical purposes, CRA adjusted the original values in the financial statements in the context of its financial ratio analysis. The following descriptions and indicators are based solely on those adjustments.

As of 31 December 2019, the Italgas Group had an overall satisfactory credit rating and robust capital structure. From an analytical point of view, we consider the equity ratio of 25.6% (2019: 24.5%) to be in need of improvement. The increase in the capital lock-up period to 106.2 days (2019: 85.1 days) as a result of the increased short-term trade payables must also be viewed critically, since it is primarily indicative of a weakness of margin in the Group's business operations. Furthermore, the increase in short-term capital lock-up to 43.4% (2019: 33.43%) indicates a significant outflow of liquidity in the following financial year, or rather a high refinancing requirement.

In terms of finance, the 2019 financial year was characterized by repatriation and taking on debt. In July and December 2019, two new bonds of EUR 600 million and EUR 500 million were issued, and a bond buyback transaction was made of two earlier bonds with a total nominal value of EUR 650 million. In addition, bank liabilities and EIB loans were increased due to the consolidation of Toscana Energia. Accordingly, the total financial debt as of 31 December 2019 amounted to EUR 4,671.5 (31.12.2018: EUR 3,822.4 million). CRA's adjusted ratio of net total debt to EBITDA was 6.8 (2018: 6.1), in our view still adequate given the Group's solid and predictable cash flows from its regulated business.

In the first nine months of 2020, the cash flow from operating activities amounted to EUR 424.4 million (31.09.2019: EUR 528.8 million). Due to the large net investments of EUR 562.6 million (31.09.2019: EUR 455.2 million), there was a negative free cash flow before M&A transactions of EUR -138.2 million (31.09.2019: EUR 135.8 million) at the end of September 2020. In consideration of the M&A transactions (EUR -10.7 million), dividend payments (EUR -206.0 million) and the effects of applying IRFS 16 (EUR 4.7 million), the Group's net financial debt increased as of 31

September 2020 by 7.9% to EUR 4,840.9 million (31.09.2019: EUR 4,485.3 million). Overall, the Italgas Group's liquidity situation as of 31 September 2020 was sufficient. The Company had cash and cash equivalents of EUR 541.8 million and an unused committed long-term credit line with a term until October 2021 of EUR 500.0 million EUR. Furthermore, Italgas has an active EMTN (Euro Medium Term Notes) Programme, as part of which a further bond issue of EUR 500 million was concluded on 24 June 2020. In addition, on 20 October 2020, the approval of the renewal of the EMTN Programme 2020 with an increase in the nominal value of EUR 5.0 billion to EUR 6.5 billion was signed.

The investment budget for the period between 2020 and 2026, according to Italgas' updated strategic plan, will be EUR 7.5 billion, an increase of 22% (excluding tenders) over the previous plan. EUR 2.0 billion of the investments are earmarked for the tendering process, EUR 3.1 billion will be made available for the development and modernization of infrastructure, EUR 1.1 billion in technological innovations and digitization, and the remaining EUR 1.3 billion in the new M&A transactions and other strategic projects. The main purpose of the investments will be to strengthen and further develop the Group's leading position at the national and European levels. Taking into account environmental, social and governance factors, the plan envisages promoting Italgas' key role in the energy transition towards a decarbonized economy.

Overall, we assess Italgas' financial risks as moderate and manageable, despite the high investment requirements. The Group has diversified sources of finance as well as an overall comfortable maturity profile and sufficient liquidity. Italgas also has a solid capital structure and generates stable operating cash flows. In addition, the Company benefits from proven access to the capital markets. However, further significant increases in net debt could have a negative impact on the rating.

Issue rating

Issue rating details

The rating objects of this issue rating are exclusively the long-term senior unsecured issues, denominated in euro, 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 website of the ECB.

The notes have been issued within the framework of the Euro Medium Term Note (EMTN) Programme, launched by Italgas in 2016 and most recently renewed in October 2020. This EMTN Programme amounts to EUR 6.5 billion. The notes and coupons under the EMTN Programme constitute direct, unconditional, unsubordinated, unsecured obligations of the Issuer, and rank at least pari passu among themselves and with all other present and future unsecured obligations of the issuer. Additionally, the notes benefit from a negative pledge provision, a change-of-control clause, and a cross-default mechanism.

Corporate issue rating result

We have provided the debt securities issued by Italgas S.p.A. with a rating of **BBB+**. The rating is based on the corporate rating of Italgas S.p.A. Other types of debt instruments or issues denominated in other currencies of the issuer have not been rated by CRA. For a list of all currently valid ratings and additional information, please consult the website of Creditreform Rating AG.

Overview

Table 3: Overview of CRA Ratings | Source: CRA

Rating Category	Details	
	Date	Rating
Italgas S.p.A. (Issuer)	08.02.2021	BBB+ / negative
Long-Term Local Currency Senior Unsecured Issues	08.02.2021	BBB+ / negative
Other	--	n.r.

Table 4: Overview of 2020 Euro Medium Term Note Programme | Source: Base Prospectus dated 20 October 2020

Overview of 2020 EMTN Programme			
Volume	EUR 6,500,000,000	Maturity	Depending on the respective bond
Issuer	Italgas S.p.A.	Coupon	Depending on the respective bond
Arranger	BNP Paribas UniCredit Bank AG	Currency	Depending on the respective bond
Credit enhancement	none	ISIN	Depending on the respective bond

All future LT LC senior unsecured notes issued by Italgas S.p.A. with similar conditions to the current EMTN Programme, denominated in euros and included in the list of ECB-eligible marketable assets will, until further notice, receive the same ratings as the current LT LC senior unsecured notes issued under the EMTN Programme. Notes issued under the Programme in any currency other than euro, or other types of debt instruments, have not yet been rated by CRA. For a list of all currently valid ratings and additional information, please consult the website of Creditreform Rating AG. For the time being, other emission classes or programs (such as commercial paper programs) and issues not denominated in euro will not be assessed. For a list of all currently valid ratings and additional information, please consult the website of Creditreform Rating AG.

Financial ratio analysis

Table 5: Financial key ratios of Italgas Group | Source: Italgas S.p.A. Financial Report 2019, structured by CRA

Asset structure	2017	2018	2019
Fixed asset intensity (%)	79,89	82,38	82,79
Asset turnover	0,25	0,24	0,24
Asset coverage ratio (%)	92,91	82,52	79,82
Liquid funds to total assets	0,04	1,96	3,08
Capital structure			
Equity ratio (%)	28,38	24,45	25,61
Short-term debt ratio (%)	9,76	12,70	15,50
Long-term debt ratio (%)	45,85	43,53	40,47
Capital lock-up period (in days)	75,44	85,12	106,16
Trade-accounts payable ratio (%)	5,11	5,22	6,22
Short-term capital lock-up (%)	18,82	33,43	43,40
Gearing	2,52	3,01	2,78
Leverage	3,70	3,80	3,99
Financial stability			
Cash flow margin (%)	38,68	42,74	42,39
Cash flow ROI (%)	9,50	9,59	9,18
Total debt / EBITDA adj.	5,85	6,27	7,04
Net total debt / EBITDA adj.	5,84	6,11	6,75
ROCE (%)	7,72	8,40	7,50
Total debt repayment period	10,21	3,39	7,29
Profitability			
Gross profit margin (%)	68,21	71,36	65,69
EBIT interest coverage	11,36	9,50	7,34
EBITDA interest coverage	20,79	17,84	13,08
Ratio of personnel costs to total costs (%)	14,84	14,71	12,98
Ratio of material costs to total costs (%)	31,37	28,84	35,11
Cost income ratio (%)	73,46	72,61	74,02
Ratio of interest expenses to total debt (%)	0,82	0,90	1,12
Return on investment (%)	5,18	5,10	5,79
Return on equity (%)	17,61	17,75	21,66
Net profit margin (%)	18,75	19,75	22,99
Operating margin (%)	27,17	28,67	28,11
Liquidity			
Cash ratio (%)	0,46	15,41	19,88
Quick ratio (%)	187,37	117,75	94,54
Current ratio (%)	205,91	138,75	111,04

Appendix

Rating history

The rating history is available under <https://www.creditreform-rating.de/en/ratings/published-ratings.html>.

Table 6: Corporate issuer rating of Italgas S.p.A. | Source: CRA

Event	Rating created	Publication date	Monitoring until	Result
Initial rating	08.02.2021	11.02.2021	Withdrawal of the rating	BBB+ / negative

Table 7: LT LC senior unsecured issues by Italgas S.p.A. | Source: CRA

Event	Rating created	Publication date	Monitoring until	Result
Initial rating	08.02.2021	11.02.2021	Withdrawal of the rating	BBB+ / negative

Regulatory requirements

The rating² was not endorsed by Creditreform Rating AG (Article 4 (3) of the CRA-Regulation).

The present rating is, in the regulatory sense, an unsolicited rating that is public. The analysis was carried out on a voluntary basis by Creditreform Rating AG, which was not commissioned by the Issuer or any other third party to prepare the present rating.

The rating is based on the analysis of published information and on internal evaluation methods for the assessment of companies and issues. The rating object was informed of the intention of creating or updating an unsolicited rating before the rating was determined.

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

The rating was conducted based on the following information.

List of documents
Accounting and controlling
<ul style="list-style-type: none"> ▪ 2019 Annual Report Italgas ▪ 2020 Third Quarter Results Italgas ▪ 2020-2026 Strategic Plan Italgas ▪ 2019 Consolidated Non-Financial Statement Italgas
Finance
<ul style="list-style-type: none"> ▪ Snam EMTN Base Prospectus dated 20 October 2020 ▪ Final terms of the outstanding notes
Additional documents
<ul style="list-style-type: none"> ▪ Press releases

² 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.

A management meeting did not take place within the framework of the rating process.

The documents submitted and information gathered were sufficient to meet the requirements of Creditreform Rating AG's rating methodologies.

The rating was conducted based on the following rating methodologies and the basic document.

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

The documents contain a description of the rating categories and a definition of default.

The rating was carried out by the following analysts:

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

The rating was approved by the following person (person approving credit ratings, PAC):

Name	Function	Email-Address
Philipp Beckmann	PAC	P.Beckmann@creditreform-rating.de

On 8 February 2021, the analysts presented the rating to the rating committee and the rating was determined. The rating result was communicated to the Company on 8 February 2021. There has not been a subsequent change to the rating.

The rating will be monitored until Creditreform Rating AG withdraws the rating. The rating can be adjusted within the context of monitoring if crucial assessment parameters should change.

In 2011, Creditreform Rating AG was registered within the European Union according to EU Regulation 1060/2009 (CRA-Regulation). Based on this registration, Creditreform Rating AG is allowed to issue credit ratings within the EU and is bound to comply with the provisions of the CRA-Regulation.

ESG-factors

You can find out whether ESG factors were relevant to the rating in the upper section of this rating report "Relevant rating factors".

A general valid description for 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](#).

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.

No amendments were made to the credit rating between the time of disclosure of the credit rating to the rated entity and the public disclosure.

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 to only 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](#).

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