

17 April 2023 – Neuss, Germany

Rating Action / Update:

Creditreform Rating has confirmed the unsolicited corporate issuer rating of Italgas S.p.A. at **BBB+ / stable**

Creditreform Rating (CRA) has confirmed the unsolicited, public corporate issuer rating of Italgas S.p.A. (hereinafter also referred to as 'the Company' or 'Italgas') 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 **stable** outlook.

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Current relevant factors for the rating

The following considerations were of specific relevance for the rating assessment:

- Unsolicited sovereign rating of the Italian Republic of **BBB- / stable** limits the corporate issuer rating of Italgas S.p.A.
- Negative net cash flow of EUR 0.9 billion
- Increasing net financial debt
- High level of Investment: capex of EUR 8.6 billion over 2022-2028
- Diversification of the business into Greek regulated gas distribution through recent acquisition of DEPA Infrastructure S.A.
- Leading gas distributor in Italy and Greece
- Largely independent of economic fluctuations
- Positive business development in 2022
- Stable and reliable cash flows from gas distribution businesses
- Transparent regulatory framework
- Accelerated energy transition with an updated strategic plan 2022-2028
- Good access to financial markets

ESG factors are factors related to environment, social issues and governance. For more information, please see the section "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 the outlook.

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 factors with significant influence. Nevertheless, ESG factors play an important role for the Company.

As the leading gas distribution operator in Italy and Greece, as well as the third-largest in Europe, Italgas intends to play a significant role in Europe's ambitious decarbonization process (Green Deal). Accordingly, the Company's Strategic Plan 2022-2028, which further raises the emission reduction goals defined in 2021, is in line with the energy scenario anchoring the EU's target of "Net Zero Carbon" by 2050.

Italgas is committed to the transition to a more sustainable energy system by investing in renewable gases, such as biomethane, hydrogen and syn-gases, which can replace conventional fossil fuels. Furthermore, the Company is investing in the development of innovative technologies to feed renewable gases into existing networks, such as "power-to-gas" systems to recover surplus energy production.

Moreover, Italgas has also pledged to reduce its own carbon footprint by implementing energy efficiency measures in its operations, using renewable energy sources for its own needs and reducing methane emissions from its gas distribution network.

In terms of its sustainability goals, which correspond to the key timelines set out in the Green Deal, the Company aims to reduce its Scope 1 and Scope 2 greenhouse gas emissions by 42%, Scope 3 (supply chain) by 33%, and its energy consumption by 33% by 2030 compared to 2020 levels, and to achieve a "Net Zero Carbon Target" by 2050.

Through these efforts, Italgas contributes to the transition to a low-carbon energy system in Italy and across Europe, supporting the EU's efforts to meet its decarbonization targets and combat climate change.

Overall, we consider Italgas to be well-positioned with regard to ESG factors, and 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 its 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 result

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 the Company's strong market position and significant market share in gas distribution in Italy, as well as in Greece through the complete acquisition of DEPA Infrastructure S.A. Italgas benefits from a stable and supportive regulatory framework, and earns the largest share of its revenues in a regulated environment, thus generating solid and predictable cash flows. Our assessment of the direct and indirect shareholder structure and an assumed degree of systemic importance for Italgas indicates close proximity to the Italian government, hence the classification as a state-affiliated company, which was a decisive factor 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- / stable** as of January 20, 2023). Any change in the sovereign rating of the Italian Republic could affect the corporate issuer rating of Italgas S.p.A.

Outlook

The one-year outlook for the rating is **stable**. This reflects our view that Italgas will be able to sustain its credit metrics at a healthy level despite the current uncertain market conditions and volatile environment. Nevertheless, given the Company's close relationship with the Italian government and classification as a state-affiliated company, the outlook could be adjusted at short notice in the event of any change in the sovereign rating of the Italian Republic.

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 only seem to be possible if based on an improvement in the sovereign rating of the Italian Republic in tandem 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.

Business development and outlook

Table 1: Financials of Italgas Group | Source: Italgas S.p.A. Integrated Annual Report 2022, 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 | |
|---|---------------------------------------|----------|
| | 2021 | 2022 |
| Revenues (million EUR) | 2,098.5 | 2,182.7 |
| EBITDA (million EUR) | 1,028.5 | 1,120.5 |
| EBIT (million EUR) | 584.1 | 642.2 |
| EAT (million EUR) | 383.4 | 436.1 |
| EAT after transfer (million EUR) | 362.8 | 407.3 |
| Total assets (million EUR) | 10,406.6 | 11,131.3 |
| Equity ratio (%) | 23.7 | 23.3 |
| Capital lock-up period (days) | 95.3 | 170.3 |
| Short-term capital lock-up (%) | 37.8 | 16.5 |
| Net total debt / EBITDA adj. (factor) | 6.4 | 7.5 |
| Ratio of interest expenses to total debt (%) | 0.8 | 0.7 |
| Return on Investment (%) | 4.3 | 4.4 |

The global economic environment in 2022 was marked by heightened geopolitical tensions due to the outbreak of war in Ukraine and the subsequent economic sanctions against Russia, which were reflected in high and volatile commodity and energy prices and led to upward inflation and interest rates. Despite these challenging market conditions, Italgas was again able to report pos-

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 takes all balance sheet liabilities into account. Therefore, the key financial figures shown often deviate from the original values of the company.

itive year-on-year revenue and profit growth in the 2022 financial year, demonstrating the resilience of its business model. Total revenues increased by 4.0% to EUR 2,182.7 million (2021: EUR 2,098.4 million), EBITDA by 8.9% to EUR 1,120.5 million (2021: EUR 1,028.5 million) and EBIT by 9.9% to EUR 642.2 million (2020: EUR 584.1 million). This positive development was driven by higher energy efficiency activities and the contribution from DEPA infrastructure, which offset the negative effect of the low WACC. Net profit attributable to the Group increased by 12.3% year-on-year to EUR 407.3 million (2021: EUR 362.8 million).

However, the Company's positive revenues and results in the 2022 reporting year were put into perspective by the financial analysis, especially against the background of the EUR 597.6 million increase in total debt to EUR 8,541.2 million (2021: EUR 7,943.6 million), leaving the result of the financial ratio analysis unchanged from the previous year. Accordingly, net total debt / EBITDA adj. deteriorated from 6.4 to 7.5. In addition, a rise in trade accounts payable of EUR 470.1 million caused the capital lock-up period to climb from 95.3 to 170.3 days. On the other hand, a noticeable improvement in short-term capital lock-up from 37.8% to 16.5% as well as slightly higher profitability ratios had a positive effect.

Italgas recorded a net cash flow from operating activities of EUR 548.2 million as of 31 December 2022, a decrease of 34.7% compared to the previous year, mainly due to higher working capital outflows of EUR 336.8 million. After an increased net investment outflow of EUR 1,283.8 million due to M&A transactions and a net cash outflow from financing activities of EUR 204.2 million, a net cash flow for the year was negative at EUR 939.8 million (2021: positive EUR 727.7 million).

As of 31 December 2022, the Group's net financial debt increased by 21.0% to EUR 6,035.1 million (2021: EUR 4,985.9 million). Financial and bond debt totaled EUR 6,545.4 million (2021: EUR 6,376.9 million). Cash and cash equivalents, amounting to EUR 452.0 million (2021: EUR 1,391.8 million), are enabling Italgas to cover its maturing short-term financial liabilities of EUR 142.4 million. According to the Company, the upcoming maturity of the EUR 384.3 million bond in 2024 should not require refinancing. In light of the fact that the majority of Italgas' revenues derive from regulated activities which are almost fully protected from rising energy prices and volume risks, thus providing stable and predictable cash flow generation, we do not consider the Company's financial stability to be in jeopardy at the moment. Furthermore, with the acquisition of the DEPA Infrastructure, and good cash generation, Italgas expects to optimize its financial structure in the medium term by reducing the ratio between debt and RAB (Regulatory Asset Base) from 65% to 61%. Otherwise, a further increase in debt, driven by high capital expenditure, rising dividends and potential M&A activity, could have a negative impact on the previously generally solid financial ratios, leading to a rating adjustment.

In 2022, the digitization process initiated by the Group continued in line with its previous plans and was further developed within the strategic plan for 2022-2028. The investment budget for this period is expected to amount to EUR 8.6 billion, an increase of 8.9% (excluding tenders) compared to the previous plan and including exposure to Greece. EUR 4.5 billion of the investments is slated for the expansion and modernization of Italy's gas distribution network, while EUR 1.8 billion has been earmarked for a tendering process that will allow Italgas to increase its market share from the current 35% to 45%. EUR 1.8 billion was allocated for the acquisition of DEPA Infrastructure and its consolidation and the implementation of development programs, and the further EUR 0.3 billion was used to accelerate growth in the energy efficiency sector. After the completion of the tenders, and taking into account the contribution of DEPA infrastructure as well as the development of energy efficiency activities, revenues adj. are expected to exceed EUR 2.6 billion by 2028 (2022: EUR 1.5 billion), with an estimated EBITDA margin of

roughly 70%. Furthermore, at the end of 2028, the consolidated RAB of gas distribution is estimated to reach EUR 11.2 billion (+4.5% CAGR) and amount to around EUR 12.6 billion (+6.4% CAGR) from 2028 onwards, taking into account the contribution of gas tenders.

In spite of the Company's considerable investment needs, we consider Italgas' financial risks to be moderate. Given its strong market position and significant market share in the gas distribution business in Italy and Greece, we believe that Italgas has a good chance of achieving its strategic growth targets, thus strengthening and further expanding its leading position both at national and European level. The Group has a solid capital structure and stable operating cash flow, largely generated from regulated activities, which is sufficient to cover technical investments and meet financial obligations. In addition, the Company benefits from its proven access to capital markets.

Issue rating

Issue rating details

The rating objects of this issue rating are exclusively the long-term senior unsecured Notes, 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 2022. 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, and a cross-default mechanism.

Corporate issue rating result

We have provided the euro debt securities issued by Italgas S.p.A. with a rating of **BBB+ / stable**. The decision 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 2: Overview of CRA Ratings | Source: CRA

| Rating Category | Details | |
|--|------------|---------------|
| | Date | Rating |
| Italgas S.p.A. (Issuer) | 17.04.2023 | BBB+ / stable |
| Long-Term Local Currency Senior Unsecured Issues | 17.04.2023 | BBB+ / stable |
| Other | -- | n.r. |

Table 3: Overview of 2022 Euro Medium Term Note Programme | Source: Base Prospectus dated 26 October 2022

| Overview of 2022 EMTN Programme | | | |
|---------------------------------|----------------------------------|----------|------------------------------|
| Volume | EUR 6,500,000,000 | Maturity | Depending on respective bond |
| Issuer / Guarantor | Italgas S.p.A. | Coupon | Depending on respective bond |
| Arranger | BNP Paribas UniCredit Bank AG | Currency | Depending on respective bond |
| Credit enhancement | none | ISIN | Depending on 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 euro 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 Programmes and issues not denominated in euro, will not be assessed.

Appendix

Rating history

The rating history is available under:

<https://www.creditreform-rating.de/en/ratings/published-ratings.html>

Table 4: Corporate issuer rating of Italgas S.p.A. | Source: CRA

| Event | Rating date | Publication date | Monitoring period | Result |
|----------------|-------------|------------------|-------------------|-----------------|
| Initial Rating | 08.02.2021 | 11.02.2021 | 16.01.2022 | BBB+ / negative |

Table 5: LT LC senior unsecured issues by of Italgas S.p.A. | Source: CRA

| Event | Rating date | Publication date | Monitoring period | Result |
|----------------|-------------|------------------|-------------------|-----------------|
| Initial rating | 08.02.2021 | 11.02.2021 | 16.01.2022 | 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:

| | |
|--|----|
| With Rated Entity or Related Third Party Participation | No |
| With access to Internal Documents | No |
| With Access to Management | No |

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 | 2.4 | July 2022 |
| Government-related Companies | 1.0 | April 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.

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.

The rating was carried out by the following analysts:

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

On 17 April 2023, the analysts presented the rating to the rating committee and the rating was determined. The rating result was communicated to the company on 17 April 2023. 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 as part of the monitoring, if crucial assessment parameters 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 at this point:

No ancillary services in the regulatory sense were carried out for this rating object.

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 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](#).

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.

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