

**Rating object**

Terna Rete Elettrica Nazionale S.p.A  
Long Term Local Currency Senior Unsecured Issues der Terna Rete Elettrica Nazionale S.p.A

**Rating incl. outlook / watch**

BBB / stable  
BBB / stable

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

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

Rating object	Date of inception	Disclosure to rated entity	Maximum validity
Terna Rete Elettrica Nazionale S.p.A	14.12.2021	15.12.2021	Until withdrawal of the rating
Long Term Local Currency Senior unsecured issues der Terna Rete Elettrica Nazionale S.p.A	14.12.2021	15.12.2021	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 affirmed the unsolicited, public corporate issuer rating of Terna Rete Elettrica Nazionale S.p.A, hereinafter also referred to as Terna or 'the Company', as well as the unsolicited corporate issue ratings of the long term local currency senior unsecured notes issued by Terna Rete Elettrica Nazionale S.p.A at **BBB / stable**.

The rating result reflects Terna's stable operating performance during 2021 and our expectation that credit metrics will be sustained at healthy levels in the next 12-24 months. The Company proved its resilience during the COVID-19 pandemic, increasing its net revenues and EBITDA generation despite lower energy demand in 2020 and, although uncertainties related to new virus variants remain, we believe that new lockdown requirements will not be as severe as compared to the last year and Terna will continue to post growing results. In addition, Terna continues to benefit from its very low risk business model and predictable cash flow generation, given that around 85% of total revenues come from regulated activities, and has been able to sustain a solid financial position. Lastly, we also factor in the ratings its leading position in Europe and its strategic importance for the Italian government, as it owns 99% of the national power grid. Terna's ratings rank one notch above the sovereign rating of the Italian Republic (BBB- / negative as of 5<sup>th</sup> March 2021), given the company's above-average profitability compared to peers and overall satisfactory key financial indicators.

Despite the more challenging operating environment in 2020, Terna managed to increase its net revenue and analytical EBITDA (by 7.6% and 5.5%, respectively, on year-over-year basis) and was able to meet the targets that were set up prior to the outbreak of coronavirus. In the first nine months ended September 2021, Terna's overall performance has been even more positive, backed by the full rebound in energy demand and higher energy prices. In the Regulated segment, Terna's growing results were supported by the expansion of its regulated asset base (RAB), with the inauguration of the new connections and by tariff increase. The Non-regulated segment grew mainly due to the acquisition of 90% share in Brugg Cable in February 2020, which was consolidated into Terna's balance sheet from then on. The international segment includes operations in several countries in Latin America and it still represents a very small share in the Group's total revenues, being the only one presenting declining results during the first nine months ended September 2021.

In accordance to the EU taxonomy and aiming to support the Italian government to complete its decarbonisation strategy, Terna announced its EUR 9.2 billion investments planned for the 2021-2025 period, which represent a meaningful increase when compared to the EUR 4.9 billion spent over the last 5 years. These investments aim to integrate renewable energy generation (RES) with the main consumption centres – currently, around 40% of energy demand in Italy is covered by RES- as well as to enhance and expand the connections across the national territory. Most of capex will be directed to the Regulated segment, with RAB increasing to EUR 21.8 billion by the end of the program (compared to around EUR 16 billion in 2020). In the non-regulated business, Terna has acquired LT Holding in October 2021, resulting in the creation of the biggest provider of operation and maintenance services for photovoltaic plants in Italy. In the international segment, Terna won two new concessions in Brazil (Linha verde I and II), and will build around 350km of transmission line with investments of around EUR 300 million until 2025 year-end. These two segments are expected to bring around EUR 650 million EBITDA during 2021-2025.

Terna will have high investment needs over the next decade in order to support Italy's energy transition towards renewable sources, and this will exert some pressure on the Company's financial debt levels. Nevertheless, we believe that Terna will continue to benefit from predictable and growing cash flow generation, sustaining its solid financial position and stable credit metrics. In the first nine months of 2021, Terna's financial gross debt decreased by EUR 324 million following the repayment of EUR 1,250 million notes issued in 2011, partially offset by the issuance of a new EUR 600 million green bond and increase in other bank borrowings.

Terna's liquidity position slightly deteriorated during 2021 due to an increase in short-term borrowings and higher cash outlays, with liquid funds covering 96% of its short-term debt maturities in September 2021, compared to 140% at the end of 2020. In the coming years, the Company's liquidity position will face further pressure from its high capex plans and its strategy to increase dividend payments, likely resulting in a prolonged

period of negative free cash flows. Nonetheless, we believe in the company's ability to access capital markets and refinance upcoming financial obligations.

Based on the unsolicited corporate issuer rating of Terna Rete Elettrica Nazionale S.p.A (BBB / stable), CRA has prepared unsolicited corporate issue ratings on its issues (ISIN). The rating objects considered here are exclusively the EUR-denominated Long-Term Senior Unsecured Issues which are part of the ECB's list of eligible marketable assets and which were issued by Terna Rete Elettrica Nazionale S.p.A. This ECB list of eligible marketable assets is available on the website of the European Central Bank. These issues (ISIN) are rated BBB / stable.

**Primary key rating drivers:**

- + Leading position as the largest independent electricity transmission grid operator in Europe
- + Terna is of strategic importance for Italy since it owns and manages 99% of the national power GRID
- + Stable operating performance and predictable cash flows, predominantly generated from highly-regulated activities
- + Terna proved to have resilient business model during the COVID-19 pandemic and, going forward, earnings results should continue to benefit from the recovery in energy demand and higher prices
- + Numerous projects to increase power GRID lines in Italy and strategy to expand internationally will strengthen Terna's business profile
- + Above average profitability compared to industry peers
  
- High investment needs for a prolonged period of time in order to support the energy industry transition
- Higher capital expenditures will likely result in negative free cash flows in the coming years
- Increase in dividend payments amid expansion phase will put further pressure on Terna's liquidity profile
- Constrained by sovereign rating of Italian Republic (BBB- / negative as of 5<sup>th</sup> March 2021)

**ESG-criteria:**

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

As a transmission system operator active in Italy with 99% of the national power GRID, Terna plays a central role in the energy transition in Europe. The electricity sector has been facing increasing pressure to rise investments in renewables, being subject to regulatory changes and to increasingly rigid climate action goals. Terna will support the Italian government to achieve its Green New Deal and Italy's national decarbonisation strategy – the National Integrated Energy and Climate Plan (PNIEC) –, which set up a target of 55% coverage of energy consumption through renewable sources by 2030 (35% in 2019), implying in the need of additional 40GW renewable installed capacity. The Group announced investments of EUR 18 billion within the next 10 years aiming to expand power transmission lines and integrate the main energy consumption centres with the additional renewable energy generation.

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, we assume a rating of BBB. In this scenario, Terna's operating performance will continue to improve over the next 12-24 months, backed by solid energy demand and by the successful execution of its investment plans. We incorporate a moderate increase in financial debt levels in the coming years, but this is offset by the Company's growing operating results. It is also expected that Terna will continue to have ample access to capital markets and will sustain adequate liquidity position, thus refinancing debt maturities ahead of time. Given the strong linkages with the government of Italy, a more meaningful economic recovery would also have a positive impact on Terna's ratings.

Worst-case scenario: BBB-

In our worst-case scenario, we assume a rating of BBB. In this scenario, we consider that the Company will face more severe and longer-lasting impacts of COVID-19, with operating results moving sideways. We incorporate a disproportionate increase in financial debt levels, resulting in the deterioration of financial key indicators. In this case, liquidity position will be further pressured by weaker internal cash flow generation, increasing the company's financial risk. A downgrade on Italy's sovereign rating would also affect Terna's ratings negatively.

**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 Terna Rete Elettrica Nazionale S.p.A</b>	Initialrating	14.12.2018	18.12.2018	15.12.2020	BBB / stable
<b>LT LC Senior Unsecured Issues issued by Terna Rete Elettrica Nazionale S.p.A</b>	Initialrating	14.12.2018	18.12.2018	15.12.2020	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:

<b>Unsolicited Corporate Issuer / Issue Rating</b>	
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>	2.3	29.05.2019
<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>1</sup> was not endorsed by Creditreform Rating AG (Article 4 (3) of the CRA-Regulation).

**Conflict of interests**

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.

<sup>1</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.

## 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](#).

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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