

Rating object	Rating information	
<b>Iberdrola S.A.</b>  Creditreform ID: 2000000597 Incorporation: 1992 Based in: Bilbao, Spain Main (Industry): Energy distribution, generation and transmission CEO: José Ignacio Sánchez Galán	SME / Corporate Issuer Rating: <b>BBB+ / stable</b>	Type: Update Unsolicited Public rating
	LT LC Senior Unsecured Issues: <b>BBB+ / stable</b>	Other: <b>n.r.</b>
Rating objects: Long-term Corporate issuer Rating: Iberdrola S.A. Long-term Corporate Issuer Rating: Rating Iberdrola International B.V. Long-term Corporate Issuer Rating: Iberdrola Finanzas S.A.U. Long-term Corporate Issuer Rating: Iberdrola Finance Ireland DAC Long-term Local Currency Senior Unsecured Issues, issued by Iberdrola International B.V. Long-term Local Currency Senior Unsecured Issues, issued by Iberdrola Finanzas S.A.U. Long-term Local Currency Senior Unsecured Issues, issued by Iberdrola Finance Ireland DAC		
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## Summary

### Company

IBERDROLA S.A. – is the parent company of the Iberdrola Group (hereinafter also referred to as "Iberdrola", or "the Group"). The Iberdrola Group is a multinational energy corporation based in Bilbao, Spain. The Group was established in 1992 and has since then grown into one of the largest energy groups worldwide. The Group's activities range from the production of electricity from conventional and renewable resources and the sale and purchase of electricity and gas in the wholesale markets, to the transmission and distribution of electricity and gas. It is predominantly active in Brazil, Mexico, Spain, United Kingdom, and the United States of America, but also has a smaller presence in many other countries.

During the 2021 business year Iberdrola generated revenues of EUR 39,114 million (2020: EUR 33,145 million), EBITDA of EUR 11,516 million (2020: EUR 9,516 million), EBIT of EUR 7,326 million (2020: EUR 5,551 million) and net profit of EUR 4,352 million (2020: EUR 3,952 million).

### Rating result

The current unsolicited corporate issuer rating of Iberdrola S.A. attests a good level of creditworthiness representing a low to medium default risk. The main positive factors contributing to the rating result are Iberdrola's balanced financial profile, as well as its large amount of regulated revenues and long-term contracts (PPA's), which significantly reduces market price and volume risks. Furthermore, the geographically diversified asset base and income generation also contributes positively to the current rating result. Regulatory risks, particularly with regard to the Networks business, are for a large extent mitigated due to the high number of different regulatory regimes. The increasing capacity in renewables increases exposure to adverse weather conditions. However, this is to a large extent mitigated by a high degree of diversification in terms of geography and energy source (Wind, Hydro, Solar).

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The current volatility on European energy markets have not had a significant effect on the Group's performance as a whole. In the Spanish generation segment, however, performance was negatively affected by higher gas prices as it had to source replacement volumes for fixed price contracts to offset lower hydro-electric and to a lesser extent wind production volumes in Spain following reduced rainfall and lower wind resources.

The significant share of renewables in Iberdrola's energy mix reduces the need for future investments. Nevertheless, in order to retain its leadership position in the energy transition, Iberdrola will invest EUR 75 billion in the period between 2020 and 2025 and EUR 150 billion in the period up to 2030 to finance the continuance of its energy transition. Investments will most likely be accelerated to EUR 13 billion annually between 2023 – 2025. The ambitious investment plan of the Group is currently a constraining factor to the rating as the increased cash-outflows put credit metrics under pressure.

### Outlook

The one-year outlook of the rating is **stable**. Despite the increased volatility on the energy markets and increased global uncertainty we expect stable development for the Group with continuing strong EBITDA and cash-flow generation. This outlook is based on the fact that most of the Group's procurements have already been secured for the business year 2022 and 2023, the fact that gas only contributes approximately 4% to its EBITDA generation in Europe and that it has no dependence on Russian oil and gas. Furthermore, the geographically diversified asset base is largely protected by regulatory frameworks and market price fluctuations, thus reducing the risk for significant downturns in Iberdrola's operational development.

### Relevant rating factors

Table 1: Financials I Source: Iberdrola S.A. Annual Report 2021, standardized by CRA

Iberdrola S.A. Selected key figures of the financial statement analysis Basis: Annual accounts and report of 31.12. (IFRS, etc.)	CRA standardized figures <sup>1</sup>	
	2020	2021
Sales (million EUR)	33,145	39,114
EBITDA (million EUR)	9,516	11,516
EBIT (million EUR)	5,551	7,326
EAT (million EUR)	3,952	4,352
EAT after transfer of minority interests (million EUR)	3,611	3,885
Total assets (million EUR)	112,972	131,132
Equity ratio (%)	41.84	42.77
Capital lock-up period (days)	56.58	55.65
Short-term capital lock-up (%)	36.52	44.69
Net total debt / EBITDA adj. (Factor)	6.20	5.84
Ratio of interest expenses to total debt (%)	2.40	2.22
Return on investment (%)	4.37	4.09

<sup>1</sup> 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.

#### Reference:

The relevant rating factors (key drivers) mentioned in this section, are predominantly based on internal analyses, evaluations of the rating process, the derived valuations of the analysts participating in the rating and, if 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 2021:

+Revenue, EBITDA, EBIT, EAT

+Equity ratio

+Net total debt / EBITDA adj. (Factor)

- Return on investment

- Gross margin

**General rating factors**

- + Diversified geographical asset and concession base
- + Diversified income generation
- + High degree of CO<sub>2</sub> free electricity generation
- + High degree of regulated revenues and EBITDA
- + Good access to financial markets
  
- Capital-intensive business with high ongoing investments
- Exposure to currency fluctuations (especially in emerging markets)
- Increased country risks
- Demand and price risks mainly in the Liberalized business
- Weather dependent (Water, wind and solar resources)
- Regulatory risks

**Current rating factors**

- + Increasing revenues and (operating) profit due to growing asset base and strong operating performance
- + Renewables segment performance overcompensated the challenging environment of the Liberalized business
- + Stable development of credit metrics despite significant investments
- + Strong liquidity as of H1 2022
- + Growing (regulatory) asset base / Investment plan is proceeding according to plan
- + Positive tariff adjustments in the Networks business and the consolidation of Neoenergia Distribuição Brasília
- + Supreme court ruling in Spain resulting in a non-recurring gain
  
- Postponement of PNM acquisition due to rejection of agreement by New Mexico Public Regulation Commission. Agreement between PNM and Avangrid extended until 2023
- Increasing indebtedness including subordinated indebtedness due to high investment pressure
- Increased supply costs due to higher gas and CO<sub>2</sub> prices
- Recalculation of deferred taxes due to an increase in the UK corporate tax rate, leading to a significant non-recurring tax expense
- Increased global uncertainty and volatility as a result of the war in Ukraine

**Prospective rating factors**

- + Achieving the goals set in the investment plan 2020 – 2025 with retention of credit metrics
- + Improvement of financial key figures
- + Improved market conditions
- + Further increasing amount of regulated revenues
  
- Decreasing operating margins
- Negative regulatory developments
- Deteriorating financial key figures
- Unexpected long Delays or significant cost inflation at the planned Investments

**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, whether positive (+) or negative (-).

**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 which – 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 they 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

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

**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 the outlook.

Iberdrola made substantial progress in reducing its environmental footprint and thereby contributes to the decarbonization of the energy sector. The Group's investment plan 2020 – 2025 foresees investments of EUR 75 billion in total, predominantly to be invested in smart grids and renewable energy generation. The electricity grids play an important role in the energy transition in facilitating smart, efficient and flexible transmission and distribution of renewable energy and accommodating the electrification of the global economy. Investments in renewables will help reduce CO<sub>2</sub> emissions. Iberdrola has a leading position in the generation of emission-free electricity. At the end of H1 2022 the Group had 59,522 MW of installed generation capacity, of which 42,002 MW (Renewables 38,825 MW and Nuclear energy 3,177 MW) produces emission free energy, corresponding to 70.6%. This amount has been slowly but steadily increasing as a result of the Group's previous and current investment programs. Iberdrola has outlined an investment plan covering the years 2020 – 2025, in which it plans to invest a total of EUR 75 billion, largely into its Networks business and Renewables generation capacity. For the period of 2020 – 2030, Iberdrola forecasts an investment package of EUR 150 billion also with a strong emphasis on growth in Renewables and Networks.

At the end of 2021, the Group's strategy to decarbonize has led to a 70% reduction in direct emissions compared to 2000 with emissions of 60 gCO<sub>2</sub>/KWh in Europe and 96 GcO<sub>2</sub>/KWh globally. Iberdrola's goal is to reduce its global emissions to 50 GCO<sub>2</sub>/KWh by 2030 and wants to achieve carbon neutrality by 2050.

Iberdrola is a leader in sustainable finance and at the end of 2021 was the world's leading corporate group with regard to green bonds issued. At the end of 2021 Iberdrola had issued 15 green bonds for a total of EUR 11,994 million. Its subsidiaries Avangrid and Neoenergia also have outstanding green bonds of USD 2,726 million and BRL 3.56 billion respectively.

Iberdrola has set clear targets with regard to its environmental footprint, but also with regard to social and governance and raised the percentage of women in senior management to 27% and 34% in management positions. Iberdrola also continues with its salary equality policy and continuously support the best practices in corporate governance.

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](#).

**Best-case scenario: BBB+**

In our best-case scenario for one year, we assume a rating of BBB+. We believe an upgrade within the period of one year to be unlikely due to the foreseen acceleration of Iberdrola's investment program, putting pressure on credit metrics as the Group's investments in combination with its dividend policy continue to exceed cash-flow generation. Additionally, the increasing uncertainty with regard to the war in Ukraine, rising interest rates and high inflation are also constraining factors to the rating.

**Worst-case scenario: BBB**

In our worst-case scenario for one year, we assume a rating of BBB. This could be the case if the Company's operating cash-flow will decrease, leading to high negative retained cash flow after investments, ultimately leading to an increase in borrowings, thus deteriorating the Group's credit metrics. Furthermore, increased risks with regard to a global recession, or a further escalation in the war in Ukraine also could negatively affect the operating performance of the Group.

**Business development and outlook**

During the 2021 business year Iberdrola generated revenues of EUR 39,114 million (2020: EUR 33,145 million), EBITDA of EUR 11,516 million (2020: EUR 9,516 million), EBIT of EUR 7,326 million (2020: EUR 5,551 million) and net profit of EUR 4,352 million (2020: EUR 3,952 million). The higher revenues and (operating) profit were mainly driven by the Group's strong investment program, which led to an expanded (regulatory) asset base and increased installed capacity. The higher EBITDA was predominantly caused by the factor mentioned above, but also due to positive tariff adjustments in the Networks business, as well as several court rulings and legal measures in Spain. However, the increase in EBITDA was somewhat offset by COVID-19 effects, with a decrease in EBITDA of EUR 250 million in total. Negative currency developments also negatively affected EBITDA by EUR 169 million and was mainly due to the depreciation of its main reference currencies the US Dollar and the Brazilian Real against the Euro during the 2021 business year.

The Networks business increased its reported EBITDA significantly against the prior year to EUR 5,394 million (2020: EUR 4,783 million) largely as a result of an increasing regulatory asset base, increased electricity distribution as well as due to positive tariff revisions in the regulatory frameworks. The Renewable segment more than doubled its reported EBITDA to EUR 5,521 million (2020: EUR 2,596 million) due to an increase in average power production in most of its markets, as well as additional capacity of 3,156 MW installed during the business year. The Liberalised business decreased significantly in terms of reported EBITDA to EUR 905 million (2020: EUR 2,580 million). The large reduction in operating profit in the Liberalized business was mainly caused by the high increase in supply costs resulting from the elevated gas prices, as well as increased CO<sub>2</sub> prices while selling prices were for to a large extent already fixed.

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.

Table 2: The Development of individual corporate divisions | Source: Consolidated annual accounts of Iberdrola S.A.

Iberdrola S.A. according to individual corporate divisions in 2021				
In million. EUR	Networks business	Renewables business	Liberalized business	Other businesses, corporation and adjustments
Revenue	14,887	6,036	22,734	-4,543
EBITDA	5,394	5,521	905	184
EBIT	3,362	4,085	-170	29

On the EBITDA level the Group benefited from a non-recurring event in Spain of EUR 951 million, resulting from a Supreme Court ruling concerning a hydro-electric levy derived from law 15/2012. This effect was slightly offset by implemented efficiency measures of EUR 94 million. Earnings before tax increased to EUR 6,301 million (2020: EUR 5,053 million) in comparison to the prior year and the Group recognized non-recurring income of EUR 155 million of late payment interests resulting from the supreme court ruling in Spain. The recognition of the late payment interests of EUR 155 million were however almost completely offset by higher finance expenses due to increasing indebtedness and an increasing cost of debt. The average cost of debt in 2021 increased to 3.24% (2020: 2.86%). The significant increase in EBT was diminished by the recognition of deferred taxes due to the recalculation of a new expected tax rate in the UK, which will enter into force in 2023, leading to an increase in corporate taxes of EUR 508 million. Therefore, the EAT for the year was EUR 3,885 million (2020: EUR 3,611 million).

During the first six months of the 2022 business year Iberdrola generated reported revenues of EUR 24,430 (H1 2021: EUR 18,752 million), reported EBITDA of EUR 6,444 million (H1 2021: EUR 5,444 million) and net profit of EUR 2,075 million (H1 2021: EUR 1,531 million). During the first half of 2022 Iberdrola as a group continued its performance and was relatively unfazed by the situation in Ukraine, and by sanctions between the western world and Russia. On Group level gas contributed only 4% to EBITDA in Europe and the Group has no dependency on Russian gas or oil. Iberdrola Spain however, was affected by the increased volatility and high price environment on the European markets. As the Euro depreciated against the Group's most important reference currencies, it registered a significant increase of EUR 381 million on reported EBITDA during the first half of 2022. Overall, the Company showed positive performance in both segments. Both the Networks segment and the Electricity production and customers segment<sup>2</sup>, grew throughout all geographies except in Spain. The growth in Networks EBITDA was mostly driven by the United States and Brazil. The businesses in the USA recorded a non-recurring event of USD 550 million linked to a New York order allowing the accrual of certain regulatory assets and USD 125 million by an expanding asset base. The increased EBITDA in Brazil was mainly due to tariff adjustments and Inflation (BRL 1,458 million) in the Networks segment. These positive factors were slightly offset by a non-recurring event of EUR -195 million in Spain, resulting from a court decision and a regulatory order on certain assets. In the Generation segment growth was mostly driven by Brazil and Spain, and slightly offset by the United States, which had lower EBITDA in comparison to the prior year due to a cold snap in Texas in 2021. Mexico in turn benefited from the lower EBITDA in 2021, also resulting from the Texas cold snap losses in 2021. The growth in Spain, however, was to a large extent offset by a challenging market environment. Due to a significant drop in rainfall the hydroelectric facilities in Spain produced

<sup>2</sup> Iberdrola elected to depict the electricity production and customer relationships as one segment instead of differentiating between the Renewables segment and the Liberalized segment as a result of the current market situation on the energy markets.

significantly less electricity in comparison to the prior year (-45%). This reduction in electricity production had to be offset by other sources of electricity. The Group therefore had to source gas and coal at much higher prices on the energy market in order to meet its contractual obligations. The high price environment and volatile energy markets therefore negatively affected the profit of Iberdrola Spain. Despite these factors the Group managed to achieve growth in Spain in the generation segment. The growth in Brazil was mainly due to better performance of the Termopernambuco combined cycle plant, which due to the shutdowns caused by gas supply restrictions this year has purchased energy at lower prices in order to fulfil its contracts with distributors. The increased (regulatory) asset base also played a role in the rising operating profit in both segments

According to Iberdrola's strategy EUR 75 billion will be allocated towards investments between the period of 2020 – 2025 to drive the energy transition and to decarbonize its electricity generation profile. During 2021 EUR 9,940 million was invested, of which approximately 90% to the Networks business and Renewable generation, which is in line with its strategy. During the first six months of 2022 Iberdrola made gross investments of EUR 4,741 million and it is expected that the rate of investments will accelerate during the second half of the year. Furthermore, according to the Group's outlook 2020 – 2025 it expects to ramp up investments to EUR 13 billion annually during the period 2023 – 2025 with EBITDA and net profit expected to grow to EUR 15 billion and EUR 5 billion annually respectively by 2025. As of H1 2022 the Group has approximately renewable capacity of 10,800 MW currently under construction or secured with PPA's.

Iberdrola's subsidiary, Avangrid INC. has undertaken to acquire 100% of the share capital of PNM Resources Inc., an American electric utility, which conducts regulated business, primarily in the transmission, distribution and generation of electricity in the states of New Mexico and Texas. In 2021 the Company generated operating revenues of USD 1.78 billion and EBITDA of EUR 592 million. The total price for the entire share capital will amount to approximately USD 4,318 million and was expected to close at the end of last year. However, on December 8 PNM Resources published, that the New Mexico Public Regulation Commission rejected the agreement that had been reached with the parties in the PNM / Avangrid merger. On the third of January 2022 it was announced that PNM Resources and Avangrid had entered into an amendment of their merger agreement extending the end date to April 20, 2023 and filed a Notice of Appeal with the New Mexico Supreme Court. There is no further information available as of yet.

Iberdrola reported strong growth and is investing mainly in decarbonization of its generation fleet and digitization of its Network assets. Its strategy foresees an increasing focus on the segments Networks and Renewables, which will further solidify its EBITDA and stable cash-flow generation. We believe however, that the increase in EBITDA will in the short term be overcompensated by increasing indebtedness and cost of debt.

### Structural risk

Iberdrola S.A. is a holding company and the parent company of the Iberdrola Group, which is headquartered in Bilbao, Spain. The Group's activities are focussed on the energy sector and predominantly encompass the production, transmission, distribution and supply of electricity. The parent Company, Iberdrola S.A., functions as a holding company for the Group's investments, and defines and supervises the policies, strategies and general guidelines of the Group. Under the parent Company Iberdrola S.A., the Group has country sub-holding companies, which hold the investments of the Group and are mainly organized by the country in which they operate. These (national) sub-holding companies have their own Board of Directors, CEO's and internal auditing processes. Their main task is to implement and to monitor the general policies,

strategies and directives ordered by the Group in accordance with the country-specific legislation in which the sub-holding operates. The Group mainly operates in five countries: Spain, Brazil, United Kingdom, United States of America and Mexico through their national sub-holdings, which in turn hold the regional operating entities. The Group also has an international presence in Portugal, France, Italy, Germany, Greece, Hungary, Romania, Cyprus, Australia, Japan and Poland.

The Group's sub-holding Companies are:

- Iberdrola España S.A.U. (100% ownership)
- Scottisch Power Ltd. (100% ownership)
- Avangrid Inc. (81.50% ownership)
- Neoenergia S.A. ( 52.91% share ownership)
- Iberdrola México S.A. de C.V. (100% ownership)
- Iberdrola Participaciones S.A.U. (100% ownership)
- Iberdrola energía Internacional S.L.U.(100% ownership)

Each sub-holding company holds the interest of one or more head of business company. These head of business companies lead a certain business in a respective country, assume executive responsibilities and are responsible for the day-to-day control of their respective businesses.

The overall strategy of the Group is defined by the Board of directors of the Group. It determines the general policies, focuses its activities, defines and supervises the overall Group strategy and makes decisions on matters that fall outside of the scope of authority of the management team. All members of the board are external directors except for the Chairman, who is the CEO of the Group. The CEO and his management team are entrusted with the implementation of the strategy. For matters that are not within the management team's authority it needs to consult the Board of Directors. The Board of Directors in turn has for certain matters consult the general shareholders meeting for matters not within their scope of authority.

We consider the structural risk profile of Iberdrola to be low. The activities of the group are generally guided by regulatory requirements and frameworks. The Group structure is organized based on the strategic business units and are managed independently within the scope of the Group strategy in order to implement its policies in accordance with country specific legislation and regulatory frameworks. The structure simplifies the decision making process in the day-to-day management of the Group. We believe that the Group's legal as well as corporate governance structures are sufficiently developed and have not detected any abnormalities.

### Business risk

Iberdrola operates in the energy industry, and its main activities are the production of electricity from both renewable and conventional energy sources, the sale and purchase of electricity and gas in wholesale markets, the transmission and distribution of electricity, retailing of electricity and gas, as well as related activities, mainly in the energy sector. The Group divided its activities into four different business segments: Network business, Liberalized business, Renewable business, and Other businesses, which includes the non-power businesses.

In the Networks business segment, the Company operates in Brazil, the United Kingdom, the United States of America and Spain. The Group's activities comprise distribution and transmission, mainly of electricity, and the distribution of gas in the United States. The Networks business is regulated by regulatory cycles, which determine the tariffs for the distribution and transmission of energy and gas. The duration and tariff system of regulatory cycles differ per country or even region, which reduces the risk of a significant impact on the Group due to regulatory changes in the framework. The tariff systems are generally based on operating costs and cost



of capital of the regulatory asset base, as well as an estimated volume that the Group will transmit or distribute in a given year. These tariff systems are set for a certain period and often lead to relatively stable and predictable cash flows.

Total electricity generation of the Group had a generation capacity of 59,522 MW as of H1 2022, of which approximately 65% of the Group's installed capacity is in the Renewables segment. Over the last 12 months an additional 3,400 MW of new renewable energy production capacity has been installed. As of H1 2022 the Renewables segment had a capacity of 38,722 MW (2021: 38,136 MW) as of 30.06.2022, of which 19,683 MW was onshore wind, 14,121 MW of hydroelectric, 3,448 MW solar, 1,258 MW offshore wind and 198 MW batteries. Additionally, the Group has a 3,177 MW capacity of nuclear energy at its disposal. This makes approximately 70% of the Group's generated electricity emission free.

The majority of electricity from renewable sources is sold through long-term contracts (PPA's – Power Purchase Agreements) in which volumes and prices are agreed upon for longer periods of time, thereby reducing market price and volume risk. A shortfall in renewable energy production might cause unexpected extra costs as replacement values have to be sourced in the energy markets at possibly much higher values in order to meet contractual obligations of long-term electricity contracts. This risk is mitigated by the diversification of energy source and geographical diversification. The Deregulated business is, in contrast to the Renewables and Networks business segments, more exposed to general market conditions (volume and price risks) and commodity risks (coal, nuclear fuel, natural gas etc.)

The Group generates the majority of its EBITDA from regulatory activities or long-term contracts (PPA's), which significantly reduces its exposure to general market conditions such as price and volume risks. During the 2021 business year, the Group generated reported EBITDA of EUR 12,006 million, of which EUR 5,394 million was generated by the Network business and EUR 5,521 million by the Renewables business. Both of these segments are considered to be almost completely regulatory activities or generate electricity from PPA's. Additionally, the Group's operating profit is well-diversified both geographically and by its activities. During the 2021 business year 52.9% (2020: 42.5%) of EBITDA was generated within Spain, 11.6% (2020: 19.7%) in the United Kingdom, 10.0% (2020: 9.2%) in the United States, 16.8% (2020: 13.7%) in Brazil, 7.5% (2020: 12.4%) in Mexico and 1.1% (2020: 2.4%) in the remaining parts of the world. The relative operating profit in Spain was significantly higher than usual due to non-recurring income of EUR 951 million after a Supreme Court ruling concerning the hydroelectric levy.

According to its 2020 – 2025 investment plan the Group aims to invest approximately EUR 75 billion in the period between 2020 and 2025, largely comprising investments that are aligned with decarbonization and the energy transition. According to Iberdrola's strategy the Company aims to invest 51% of its investments in renewable energy production in order to further decarbonize its generation fleet. 40% of its targeted investments will be allocated to the Networks business to update its networks, facilitating the smart transmission and distribution of electricity and gas. The residual 9% will be invested in the remaining generation fleet and trading activities. This will, according to the plan increase EBITDA generation up to EUR 15 billion by 2025 and further solidify its EBITDA generation in terms of regulated revenues, which will also reduce market risks and is in line with its overall strategy.

We assess Iberdrola's business risk profile as low to moderate; the main reason for this is the high proportion of EBITDA generated by regulated business activities and through long-term contracts, which reduces the exposure to general market risks significantly. Having a high degree of regulatory activities, however, exposes Iberdrola to political and regulatory changes, which could adversely affect the Group. The risk profile of the Group is also increased due to its

relatively high percentage of activities in emerging economies. The Group's EBITDA and asset base are geographically well-diversified, thus mitigating the potential impact of these risk factors. The Group is well-positioned in its energy mix, with one of the lowest CO<sub>2</sub> output per unit of MWh, thereby lowering the risks of being required to modernize its entire energy mix in order to comply with regulations. The influence from the war in Ukraine has remained limited so far, as the Group only receives a small amount of gas from Russia and no Russian oil at all.

### Financial risk

For analytical purposes, CRA adjusted the original values in the financial statements in the context of its financial ratio analysis. Contrary to our normal practice, we deducted the goodwill shown on the balance sheet from equity only by 50%, suggesting a certain recoverability of goodwill. The following descriptions and indicators are based primarily on these adjustments.

Iberdrola's balance sheet total has grown rapidly over the last couple of years, mainly driven by the Group's extensive investment program. In 2021 the Group once again significantly increased its adjusted balance sheet total to EUR 131,132 million (2020: EUR 112,972 million). Increases were seen in particular in PPE. Other factors, such as financial instruments and other current assets also caused the balance sheet to increase. This trend of a growing balance sheet is expected to continue as the current strategy with corresponding investments will continue to be pursued.

If Iberdrola is to achieve the EUR 75 billion of investments in the period 2020 – 2025 the investment pressure for the Group will most likely increase over the next years. The financial management of the Group foresees required funds of EUR 94 billion during the period, in order to finance investments and pay dividends. Expected is that 67% will come from funds from operations and cash management of the Group, while the residual amount will be financed from additional debt, hybrid instruments and asset rotation as operating cash flow is generally insufficient to cover forecasted investments. During the business year 2021 Iberdrola generated negative cash flow after investments of EUR -1,382 million (2020: EUR 1,703 million) and negative cash-flow after investments and dividends of EUR -2,181 million (2020: EUR 991 million).

At the base of Iberdrola's financial profile stands its equity, which increased to EUR 56,081 million (2020: EUR 47,269 million). This was primarily driven by a higher net result, positive OCI movements, of which translation differences, valuation adjustments of cash flow hedges and actuarial gains on pension schemes. Additionally, equity was increased by the further issuance of a EUR 2,750 million hybrid instrument that was fully allocated to equity<sup>3</sup>. This led to a slight increase in equity ratio to 42.77% (2020: 41.84%) despite increasing investment pressure.

The Group's indebtedness at the end of 2021 increased to EUR 43,213 million (2020: 40,687 million). Driven by its investment program Iberdrola expects its net debt to increase to EUR 56.1 billion in 2025, without hybrid instruments. Over recent years, the Group has been able to maintain stable leverage through the issuance of hybrid instruments and it also expects to maintain stable reported ratios throughout the plan. However, it is noteworthy that our treatment of subordinated hybrid instruments will potentially affect the future development of the Group's analytical equity. As the remaining time to maturity of hybrid instruments diminishes, the portion which is allocated to equity will decrease, which in turn will lead to a decrease in equity and an increase in indebtedness and might deteriorate consolidated leverage. We however do not expect any significant changes in the near to middle term. The maturity profile of its indebtedness

<sup>3</sup> Perpetual bonds with a maturity date longer than 5 years will be 100% allocated to equity, with a maturity date between 1 and 5 years for 50% to equity and 50% to liabilities, and maturity date shorter than 1 year to liabilities.

is well distributed and we do not believe that this will give rise to any problems. Additionally, the Group has good access to the capital markets in order to refinance any indebtedness that needs to be redeemed.

The Group's financial key metrics have remained relatively stable despite increasing indebtedness, as its EBITDA base has also increased. As of the end of 2021 the Group reported a Net total debt /EBITDA adj. of 5.91 (2020: 6.20), and the EBITDA and EBIT interest coverage stood at 6.96 (2020: 6.02) and 4.43 (2020: 3.52) respectively.

As of the end of H1 2022 the liquidity position totaled EUR 24,963 million, including available credit lines. We consider the current liquidity position of Iberdrola to be good, as the current liquidity position alone would be sufficient to meet all of its current liabilities, as of H1 2022. Additionally, the Group continues to have a strong capital market access.

Despite the Group's significant investment program, we believe the financial profile to be sound and the risks manageable. This assessment is based on Iberdrola's solid assets and financing structure, as well as on its strong cash-generation capacity. The Group has reported strong growth with stable development of credit metrics over recent years. Its strategy foresees a larger focus on the segments Networks and Renewables, which will further solidify its EBITDA and stable cash-flow generation. However, as indebtedness continue to rise and our hybrid instruments will slowly be partially allocated to liabilities we believe that, credit metrics might slowly deteriorate over time despite rising operating profit if it does not find any durable equity solutions.

## Issue rating

In addition to the rating of Iberdrola S.A., the following issuers and their issues (see below) have been rated:

- Iberdrola International B.V.
- Iberdrola Finanzas S.A.U
- Iberdrola Finance Ireland DAC
- Long-Term Local Currency Senior Unsecured Issues issued by Iberdrola Finanzas S.A.U.
- Long-Term Local Currency Senior Unsecured Issues issued by Iberdrola International B.V.
- Long Term Local Currency Senior Unsecured Issues issued by Iberdrola Finance Ireland DAC

### Issuer Rating of Iberdrola International B.V.

Iberdrola International B.V. is a company with limited liability under the laws of the Netherlands and was incorporated in 1992. The company is wholly owned by Iberdrola S.A. and its financial statements are fully consolidated in the financial statements of the Group. The issuer's principal activity is the provision of treasury services to the Iberdrola Group. The parent company issued an unconditional and irrevocable guarantee on a full-recourse basis with respect to its obligations arising from the outstanding bonds. The unsolicited corporate issuer rating of Iberdrola International B.V. is therefore equal to the rating of Iberdrola S.A. The rating result is **BBB+** with **stable** outlook.

### Issuer Rating of Iberdrola Finanzas S.A.U.

Iberdrola Finanzas S.A.U. is a company operating under Spanish law and was incorporated in 2005. The company is wholly owned by Iberdrola S.A. and its financial statements are fully consolidated in the financial statements of the Group. The issuer's principal activity is the issuance

of preferential shares and other marketable debt instruments in Spanish and foreign organised and secondary markets. Iberdrola S.A. has guaranteed all existing bond issuances. Since the guaranteed bond issuances represent all issued debt, the unsolicited corporate issuer rating of Iberdrola Finanzas S.A.U. is set equal to the rating of Iberdrola S.A. The rating result is therefore **BBB+** with **stable** outlook.

#### **Issuer Rating of Iberdrola Finance Ireland DAC**

Iberdrola Finance Ireland DAC is an Irish-registered company and was incorporated in 2008. The company is wholly owned by Iberdrola S.A. and its financial statements are fully consolidated in the financial statements of the Group. The issuer's principal activity is to raise financing for the Group by way of issuing debt securities. All the notes issued by Iberdrola Finance Ireland DAC are guaranteed by Iberdrola S.A. The guarantee on the notes by Iberdrola S.A. leaves no net credit risk for the issuer. The unsolicited corporate issuer rating of Iberdrola Finance Ireland DAC is therefore set equal to the rating of Iberdrola S.A. The rating result is therefore **BBB+** with **stable** outlook.

#### **Issue Rating of the Long Term Local Currency Senior Unsecured Issues, issued by Iberdrola Finanzas S.A.U.**

This unsolicited issue rating is exclusively valid for the long-term senior unsecured issues denominated in euros, issued by Iberdrola Finanzas S.A.U. 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 Iberdrola S.A.'s EMTN-Program, most recently renewed on 1 June 2022. The issuer in the framework of this program is Iberdrola Finanzas S.A.U. The total nominal value of the bonds issued must not exceed EUR 30,000 million.

According to the prospectus as of 1 June 2022, the notes benefit from a negative pledge provision, and a cross default clause. A change of control clause is optional in the final terms of the notes. We have assigned the long-term senior unsecured issues issued by Iberdrola Finanzas S.A.U. a rating of **BBB+** with **stable** outlook. This decision is mainly based on the corporate rating of Iberdrola S.A. Other types of debt instruments or issues denominated in other currencies 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.

#### **Issue Rating of the Long Term Local Currency Senior Unsecured Issues, issued by Iberdrola International B.V.**

This unsolicited issue rating is exclusively valid for the long-term senior unsecured issues denominated in euros, issued by Iberdrola International B.V. 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 Iberdrola S.A.'s EMTN-Program. Iberdrola International B.V. is no longer an issuer under the terms of the latest base prospectus of the EMTN-program for future bond issues, most recently renewed on 1 June 2022. The last base prospectus that included Iberdrola International B.V. as an issuer dates from 1 August 2018. The Company continues to hold several outstanding bonds rated by CRA.

According to the prospectus, the notes benefit from a negative pledge provision, and a cross default clause. A change of control clause is optional in the final terms of the notes. We have assigned the long-term senior unsecured issues issued by Iberdrola International B.V. a rating

of **BBB+** with **stable** outlook. This decision is mainly based on the corporate rating of Iberdrola S.A. Other types of debt instruments or issues denominated in other currencies 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

### Issue Rating of the Long-Term Local Currency Senior Unsecured Issues, issued by Iberdrola Finance Ireland DAC

This issue rating is exclusively valid for the long-term senior unsecured issues denominated in euros, issued by Iberdrola Finance Ireland DAC 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 Iberdrola's Global Medium Term Note Program. The last prospectus dates from 29 July 2015 and is no longer valid. The maximum amount issued under this program cannot exceed EUR 1.500 million; the issuer in the context of this program is Iberdrola Finance Ireland DAC.

According to the last prospectus of 29 July 2015, the notes benefit from a negative pledge provision and a cross default clause. We have assigned the long-term senior unsecured notes issued by Iberdrola Finance Ireland DAC a rating of **BBB+** with **stable** outlook. This decision is mainly based on the corporate rating of Iberdrola S.A. Other types of debt instruments or issues denominated in other currencies 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 objects	Detailed Information	
	Date	Rating
Iberdrola S.A.	19.10.2022	<b>BBB+ / stable</b>
Iberdrola International B.V.	19.10.2022	<b>BBB+ / stable</b>
Iberdrola Finanzas S.A.U.	19.10.2022	<b>BBB+ / stable</b>
Iberdrola Finance Ireland DAC	19.10.2022	<b>BBB+ / stable</b>
Long-Term-Local-Currency Senior Unsecured Issues issued by Iberdrola Finanzas S.A.U.	19.10.2022	<b>BBB+ / stable</b>
Long-Term-Local-Currency Senior Unsecured Issues – issued by Iberdrola International B.V.	19.10.2022	<b>BBB+ / stable</b>
Long-Term-Local-Currency Senior Unsecured Issues, issued by Iberdrola Finance Ireland DAC	19.10.2022	<b>BBB+ / stable</b>
Other	--	n.r.

Table 4: overview of Iberdrola International B.V. and Iberdrola Finanzas S.A.U.'s EMTN Program I Source: Iberdrola S.A.

Issue Details			
Volume	EUR 30.000.000.000	Maturity	Depending on the respective bond
Issuer	Iberdrola International B.V. <sup>4</sup> Iberdrola Finanzas S.A.U.	Coupon	Depending on the respective bond
Arrangers	Barclays	Currency	Depending on the respective bond
Credit Enhancement	-	ISIN	Depending on the respective bond

Table 5: overview of Iberdrola Finance Ireland's GMTN Program I Source: Iberdrola S.A.

Issue Details			
Volume	EUR 1.500.000.000	Maturity	Depending on the respective bond
Issuer	Iberdrola Finance Ireland DAC.	Coupon	Depending on the respective bond
Arrangers	Santander Global Banking & Markets	Currency	Depending on the respective bond
Credit Enhancement	-	ISIN	Depending on the respective bond

All future LT LC senior unsecured Notes that will be issued by Iberdrola International B.V., Iberdrola Finanzas S.A.U. or Iberdrola Finance Ireland DAC under the current Guaranteed EMTN and GMTN program, 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 and GMTN program. Notes issued under the program 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.

<sup>4</sup> Iberdrola International B.V. is no longer an issuer under the latest base prospectus of 1 June 2022

## Financial ratio analysis

Table 6: Financial key ratios | Source: Iberdrola S.A., consolidated annual report 2021, structured by CRA

Asset Structure	2018	2019	2020	2021
Fixed asset intensity (%)	84.97	83.76	81.93	78.84
Asset turnover	0.35	0.34	0.30	0.33
Asset coverage ratio (%)	64.31	64.02	63.94	63.61
Liquid funds to total assets (%)	2.70	1.87	3.03	3.08
Capital Structure				
Equity ratio (%)	43.05	42.32	41.84	42.77
Short-term-debt ratio (%)	20.20	21.32	20.34	22.71
Long-term-debt ratio (%)	11.60	11.31	10.55	7.38
Capital lock-up period (in days)	54.73	51.07	56.58	55.65
Trade-accounts-payable ratio (%)	5.07	4.51	4.55	4.55
Short-term capital lock-up (%)	29.30	35.72	36.52	44.69
Gearing	1.26	1.32	1.32	1.27
Leverage	2.33	2.34	2.38	2.36
Financial Stability				
Cash flow margin (%)	18.83	22.02	22.94	20.12
Cash flow ROI (%)	6.49	7.23	6.86	6.11
Total debt / EBITDA adj.	6.50	6.46	6.55	6.25
Net total debt / EBITDA adj.	6.19	6.25	6.20	5.91
ROCE (%)	9.15	9.13	8.74	9.67
Total debt repayment period	6.43	11.28	9.52	6.45
Profitability				
Gross profit margin (%)	45.88	46.54	50.70	45.45
EBIT interest coverage	3.29	3.47	3.52	4.43
EBITDA interest coverage	5.51	5.70	6.02	6.96
Ratio of personnel costs to total costs (%)	7.50	7.65	8.31	7.54
Ratio of material costs to total costs (%)	54.96	54.33	50.29	55.37
Cost income ratio (%)	86.77	85.87	85.75	83.78
Ratio of interest expenses to total debt (%)	2.80	2.66	2.40	2.20
Return on investment (%)	4.33	4.52	4.37	4.09
Return on equity (%)	7.58	8.25	8.31	8.42
Net profit margin (%)	9.34	10.27	11.69	10.93
Operating margin (%)	15.22	16.23	16.42	18.39
Liquidity				
Cash ratio (%)	13.38	8.76	14.92	13.54
Quick ratio (%)	52.19	46.66	54.46	63.57
Current ratio (%)	74.41	76.19	88.84	93.19

## Appendix

### Rating history

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

Table 7: Corporate issuer Rating of Iberdrola S.A. | Source: CRA

Event	Rating date	Publication date	Monitoring period	Result
Initial rating	03.05.2019	16.05.2019	11.08.2020	BBB+ / stable

Table 8: Corporate issuer Rating of Iberdrola International B.V.

Event	Rating date	Publication date	Monitoring period	Result
Initial rating	03.05.2019	16.05.2019	11.08.2020	BBB+ / stable

Table 9: Corporate Issuer Rating of Iberdrola Finanzas S.A.U.

Event	Rating date	Publication date	Monitoring period	Result
Initial rating	03.05.2019	16.05.2019	11.08.2020	BBB+ / stable

Table 10: Corporate Issuer Rating of Iberdrola Finance Ireland DAC

Event	Rating date	Publication date	Monitoring period	Result
Initial rating	03.05.2019	16.05.2019	11.08.2020	BBB+ / stable

Table 11: LT LC Senior Unsecured issues issued by Iberdrola Finanzas S.A.U

Event	Rating date	Publication date	Monitoring period	Result
Initial rating	03.05.2019	16.05.2019	11.08.2020	BBB+ / stable

Table 12: LT LC Senior Unsecured issues issued by Iberdrola International B.V.

Event	Rating date	Publication date	Monitoring period	Result
Initial rating	03.05.2019	16.05.2019	11.08.2020	BBB+ / stable

Table 13: LT LC Senior Unsecured issues issued by Iberdrola Finance Ireland DAC

Event	Rating date	Publication date	Monitoring period	Result
Initial rating	03.05.2019	16.05.2019	11.08.2020	BBB+ / stable

### Regulatory requirements

The rating<sup>5</sup> 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.

<sup>5</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.



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	Yes
With access to internal documents	No
With access to management	No

The rating was conducted based on the following information.

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

The documents 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
<a href="#">Corporate Ratings</a>	2.4	01.07.2022
<a href="#">Non-financial Corporate Issue Ratings</a>	1.0	October 2016
<a href="#">Rating Criteria and Definitions</a>	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	Mail-Address
Rudger van Mook	Lead-analyst	R.vanMook@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
Philip Michaelis	PAC	P.Michaelis@creditreform-rating.de

On 19 October 2022, the analysts presented the rating to the rating committee and the rating was determined. The rating result was communicated to the company on 20 October 2022. 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](#).

## 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 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 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](#).

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