

Rating Action: Moody's changes outlook to negative on nine Italian utility issuers and on Endesa

09 Aug 2022

Madrid, August 09, 2022 -- Moody's Investors Service ("Moody's") has today affirmed the ratings and changed the outlook to negative from stable on the following Italian utility issuers: Hera S.p.A. (Hera), ACEA S.p.A. (ACEA), Italgas S.p.A. (Italgas), SNAM S.p.A. (SNAM), Terna – Rete Elettrica Nazionale S.p.A. (Terna), CDP RETI S.p.A. (CDP RETI), 2i Rete Gas S.p.A. (2iRG), A2A S.p.A., (A2A), ENEL S.p.A. (Enel) and its financing subsidiaries. Moody's also affirmed the ratings and changed the outlook to negative from stable on Endesa S.A. (Endesa), a subsidiary of Enel.

Today's rating action follows the outlook change to negative from stable on the Italian government's Baa3 debt rating. For further information on the sovereign rating action, please refer to Moody's press release dated 05 August 2022 https://www.moody's.com/research/--PR_463267

Please click on this link https://www.moody's.com/viewresearchdoc.aspx?docid=PBC_ARFTL468376 for the List of Affected Credit Ratings. This list is an integral part of this Press Release and identifies each affected issuer.

RATINGS RATIONALE

OVERVIEW OF RATING AFFIRMATIONS WITH CHANGE IN OUTLOOK TO NEGATIVE FROM STABLE:

- ACEA S.p.A.: The outlook has been changed to negative from stable. Concurrently, Moody's has affirmed the Baa2 long-term issuer rating and senior unsecured ratings, its Baseline Credit Assessment of baa2, as well as the provisional (P)Baa2 rating on ACEA's EUR4.0 billion EMTN programme.

- Hera S.p.A.: The outlook has been changed to negative from stable. Concurrently, Moody's has affirmed the Baa2 long-term issuer rating and senior unsecured ratings, its Baseline Credit Assessment of baa2 as well as the provisional (P)Baa2 rating on Hera's EUR3.5 billion EMTN programme.

- Italgas S.p.A.: The outlook has been changed to negative from stable. Concurrently, Moody's has affirmed the Baa2 long-term issuer rating, as well as the provisional (P)Baa2 senior unsecured rating on Italgas's EUR6.5 billion EMTN programme, and the Baa2 ratings of the bonds issued under the programme.

- SNAM S.p.A.: The outlook has been changed to negative from stable. Concurrently, Moody's has affirmed the Baa2 long-term issuer rating, as well as the provisional (P)Baa2 senior unsecured rating on SNAM's EUR12 billion EMTN programme, as well as Baa2 rating of the bonds issued under the programme and the Baa2 rating of the group's revolving credit facilities. Moody's also affirmed the P-2 short term rating of SNAM's Commercial Paper Programme.

- Terna – Rete Elettrica Nazionale S.p.A.: The outlook has been changed to negative from stable. Concurrently, Moody's has affirmed the Baa2 long-term issuer rating, the provisional (P)Baa2 rating on Terna's EUR9 billion EMTN programme and the Baa2 rating of the bonds issued under the programme. Moody's also affirmed Terna's P-2/(P)P-2 issuer, Commercial Paper and other short-term ratings. Moody's also affirmed the Ba1 rating of Terna's subordinated debt (also known as "hybrid").

- CDP RETI S.p.A.: The outlook has been changed to negative from stable. Concurrently, Moody's has affirmed the Baa3 long-term issuer rating.

- 2i Rete Gas S.p.A.: The outlook has been changed to negative from stable. Concurrently, Moody's has affirmed the Baa2 long-term issuer rating, the provisional (P)Baa2 rating on 2iRG's EMTN programme, and the Baa2 rating of 2iRG's revolving credit facility.

- A2A S.p.A.: The outlook has been changed to negative from stable. Concurrently, Moody's has affirmed the Baa2 long-term issuer rating, its Baseline Credit Assessment of baa2, the provisional (P)Baa2 rating on A2A's EUR6 billion EMTN programme and the Baa2 rating of the bonds issued under the programme.

- ENEL S.p.A.: The outlook has been changed to negative from stable. Concurrently, Moody's has affirmed Enel's Baa1 long-term issuer rating, and its Baseline Credit Assessment of baa1. At the same time, Moody's has changed to negative from stable the outlook on the guaranteed subsidiaries ENEL Investment Holding B.V. and ENEL Finance International N.V. Moody's has also affirmed their Baa1/(P)Baa1 backed senior unsecured ratings, the debt ENEL Finance International N.V. has assumed of ENEL Finance International S.A. Moody's has also affirmed the P-2 backed Commercial Paper rating of ENEL Finance International N.V. and Enel Finance America LLC, and the Baa3 rating of Enel's subordinated debt (also known as "hybrids").

- Endesa S.A.: The outlook has been changed to negative from stable. Concurrently, Moody's has affirmed the Baa1 long-term issuer ratings, the Baa1 senior unsecured debt rating, and Endesa's other short-term P-2 rating.

The above rating actions follow the change in outlook on the Italian government to negative and reflect the exposure of the aforementioned companies to the pressures that accompany a decline in sovereign credit quality. For more details, see "Assessing the Impact of Sovereign Credit Quality on Other Ratings", June 2019. [1]

RATIONALE FOR OUTLOOK CHANGE TO NEGATIVE AND AFFIRMATION OF THE RATING OF ACEA

The change in outlook to negative reflects the company's linkages with the sovereign, given that all its earnings are generated in Italy. However, the affirmation of ACEA's ratings, which remain one notch above that of the sovereign, reflects the company's diversified business mix and its portfolio of regulated activities, which account for around 78% of the consolidated EBITDA as of June 2022. These activities, characterized by monopolistic features and well-established regulatory frameworks, provide a good degree of predictability and visibility into the company's earnings.

Given Acea's 51% public shareholder base, Moody's considers ACEA to be a government-related issuer. However, the Baa2 rating does not incorporate any uplift from ACEA's standalone credit quality as a Baseline Credit Assessment (BCA) of baa2, based on Moody's assessment of low support and moderate dependence.

RATIONALE FOR OUTLOOK CHANGE TO NEGATIVE AND AFFIRMATION OF THE RATING OF HERA

The change in outlook on Hera to negative reflects the company's linkages with the sovereign, given that all its earnings are generated in Italy and its consequent exposure to the macroeconomic risks associated with a weaker sovereign, in particular for its unregulated activities which account for approximately 54% of the consolidated EBITDA as of June 2022. However, the affirmation of Hera's ratings, which remain one notch above that of the sovereign, reflects the company's diversified business mix and its portfolio of regulated and quasi-regulated activities, which account for around 46% of the consolidated EBITDA as of June 2022; Hera's strategy of growth through small and medium-scale acquisitions mainly funded with exchange of shares; and its solid liquidity and financial profiles.

Given Hera's 46% public shareholder base, Moody's considers Hera to be a government-related issuer. However, the Baa2 rating does not incorporate any uplift from Hera's standalone credit quality as a Baseline Credit Assessment (BCA) of baa2, based on Moody's assessment of low support and moderate dependence.

RATIONALE FOR OUTLOOK CHANGE TO NEGATIVE AND AFFIRMATION OF THE RATING OF ITALGAS

The change in outlook on Italgas to negative from stable reflects the company's linkages with the sovereign, given that essentially all its earnings are generated in Italy. However, affirmation of the rating recognizes the company's strategic position and leadership in the gas distribution sector in Italy and its fully regulated profile.

RATIONALE FOR OUTLOOK CHANGE TO NEGATIVE AND AFFIRMATION OF THE RATING OF SNAM

The change in outlook on SNAM to negative from stable reflects the company's linkages with the sovereign, given that most of its earnings are generated in Italy. However, the affirmation of the rating recognizes the company's strategic position in the transmission, storage and regasification of natural gas in Italy, its strategic role in executing on the country's energy plan, and the fully regulated nature of its activities.

RATIONALE FOR OUTLOOK CHANGE TO NEGATIVE AND AFFIRMATION OF THE RATING OF TERNA

The change in outlook on Terna to negative from stable reflects the company's linkages with the sovereign, given that most of its earnings are generated in Italy. However, the affirmation of the rating recognizes the company's strategic position as owner and operator of Italy's electricity transmission assets and pivotal role in

delivering the country's energy plan, and the company's low business risk profile associated with its electricity transmission activities under the well-established Italian regulatory framework.

RATIONALE FOR OUTLOOK CHANGE TO NEGATIVE AND AFFIRMATION OF THE RATING OF CDP RETI

The change in outlook on CDP RETI to negative from stable reflects the negative outlook for CDP RETI's operating subsidiaries, SNAM, Terna and Italgas. Nevertheless, the affirmation of the rating recognizes (1) the regulated nature of the operating subsidiaries under a well-established regulatory framework supporting stable dividend flows; (2) Moody's expectation that CDP RETI will maintain its portfolio of equity participations unchanged.

RATIONALE FOR OUTLOOK CHANGE TO NEGATIVE AND AFFIRMATION OF THE RATING OF 2iRG

The change in outlook on 2iRG to negative from stable reflects the company's linkages with the sovereign, given that all its earnings are generated in Italy. However, the affirmation of the rating recognizes the company's focus on low-risk domestic gas distribution activities in Italy under an established and supportive regulatory framework.

RATIONALE FOR OUTLOOK CHANGE TO NEGATIVE AND AFFIRMATION OF THE RATING OF A2A

The change in outlook on A2A to negative from stable reflects the company's linkages with the sovereign, given that essentially all its earnings are generated in Italy. However, the affirmation of the rating recognizes the company's well diversified business mix; lower-risk and relatively stable Italian regulated network earnings; improve operational and financial performance; sound liquidity; and a financial policy which balances the interests of its shareholders and creditors.

Given A2A's 50% public shareholder base, Moody's considers A2A to be a government-related issuer. However, the Baa2 rating does not incorporate any uplift from A2A's standalone credit quality as a Baseline Credit Assessment (BCA) of baa2, based on Moody's assessment of low support and moderate dependence.

RATIONALE FOR OUTLOOK CHANGE TO NEGATIVE AND AFFIRMATION OF THE RATING OF ENEL

The change in outlook on Enel to negative from stable reflects the company's linkages with the sovereign, given that a substantial portion of its earnings are generated in Italy. However, the affirmation of the rating recognizes the group's large scale and geographical diversification, which helps moderate earnings volatility; stable earnings stemming from regulated networks and contracted generation, which account for around 70% of group EBITDA; and a solid financial profile, with FFO/net debt likely in excess of 20% by 2023-24.

Given Enel's 23.6% public shareholder base, Moody's considers Enel to be a government-related issuer. However, the Baa1 rating does not incorporate any uplift from Enel's standalone credit quality as a Baseline Credit Assessment (BCA) of baa1, based on Moody's assessment of low support and moderate dependence.

RATIONALE FOR OUTLOOK CHANGE TO NEGATIVE AND AFFIRMATION OF THE RATING OF ENDESA

The affirmation of Endesa and change in outlook to negative from stable follow that of its parent company Enel, which holds 70.1% of its share capital. Endesa's rating is based upon the group's stand-alone business and financial profile, as well as its integral position within the broader Enel group. Endesa's underlying credit strength is based upon (1) the high proportion of regulated activities within its business mix (estimated around 55% in 2022, including generation on the Islands), which underpins its earnings stability; (2) its low leverage as reflected in our estimate of FFO/net debt at c. 28% on average for 2022-24.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

ACEA S.p.A.

An upgrade of ACEA's ratings is unlikely and would be conditional on an upward move of the Italian sovereign rating and the company demonstrating a strong financial profile, including funds from operations (FFO)/net debt sustainably around 20% and retained cash flow (RCF)/net debt in the upper teens in percentage terms. Maintenance of good liquidity would also be required in order to upgrade the ratings.

Negative pressure on ACEA's ratings could arise following a downgrade of the Government of Italy's rating; a structural deterioration in ACEA's own credit profile as might be illustrated, for example, by a weakening of its financial ratios, including FFO/net debt below the low teens or RCF/net debt below the low double digits, both in percentage terms; or any adverse regulatory development, discriminatory fiscal measures and/or adverse

political interference from the government and/ or the Municipality of Rome.

Hera S.p.A.

An upgrade of Hera's ratings is unlikely and would be conditional on an upward move of the Italian sovereign rating. Any potential upgrade would also be contingent on Hera maintaining its current underlying credit profile, reflected in FFO/net debt above the high teens and RCF/net debt above the low teens, both in percentage terms, and a good liquidity position.

Negative pressure on Hera's ratings could arise following a downgrade of the Government of Italy's rating; a structural deterioration in Hera's own credit profile as might be illustrated, for example, by a weakening of its financial ratios, including FFO/net debt below the mid-teens or RCF/net debt below the low double digits, both in percentage terms; or a deterioration in Hera's business risk profile as a result of its growth strategy, with no offsetting strengthening in its credit metrics.

Italgas S.p.A.

An upgrade of Italgas is unlikely and would be contingent on an upgrade of the Italian government's rating, provided the company maintains its current underlying credit profile, including its solid liquidity.

Any downward move in the Italian sovereign rating could potentially result in a corresponding adjustment of Italgas's rating, particularly if associated with a deterioration of the domestic macroeconomic environment. Downward pressure on the rating could also result from (1) a structural deterioration of Italgas' own credit profile, reflected by, for example, a weakening of FFO/net debt below 10% or RCF/net debt below 6%, or (2) unanticipated adverse regulatory developments hurting the company's business risk profile, evidence of political interference or adverse fiscal measures.

SNAM S.p.A.

An upgrade of SNAM is unlikely and would be contingent on an upgrade of the Italian government's rating, provided the company maintains its current underlying credit positioning, including its sound liquidity profile.

Any downward move in the Italian sovereign rating could potentially result in a corresponding adjustment of SNAM's rating, particularly if associated with a deterioration of the domestic macroeconomic environment. Downward pressure on the rating could also result from (1) a weakening in FFO/net debt to below 9% and RCF/net debt to below 6%, ; or if its net debt/fixed assets were to exceed 75%; or (2) unexpected negative regulatory developments, evidence of political interference or adverse fiscal measures.

Terna – Rete Elettrica Nazionale S.p.A.

An upgrade of Terna is unlikely and would be contingent on an upgrade of the Italian government's rating, provided the company maintains its current underlying credit profile, including its strong liquidity profile.

Any downward move in the Italian sovereign rating could potentially result in a corresponding adjustment of Terna's rating, particularly if associated with a deterioration of the domestic macroeconomic environment. Downward pressure on the rating could also result from (1) a weakening of FFO/net debt below the high-single digits in percentage terms or RCF/net debt below 5%, (2) the implementation of a riskier strategy for international growth, which would hurt Terna's current low business risk profile, or (3) unexpected adverse regulatory developments hurting the company's business risk profile, evidence of political interference or adverse fiscal measures.

CDP RETI S.p.A.

An upgrade of CDP RETI is unlikely and would be conditional upon an upward move of SNAM, Terna and Italgas's ratings and on a strengthening of CDP RETI's financial profile, illustrated by, for example, its FFO/net debt in the mid to high teens in percentage terms and its net debt/fixed assets below 70% (as a proxy for net debt/regulatory asset base [RAB] below 60%) on a proportionally consolidated basis.

Downward pressure on the rating could result from (1) a deterioration in the credit quality of SNAM, Terna or Italgas, which would likely result in a corresponding adjustment in CDP RETI's rating; (2) a weakening of CDP RETI's financial profile, such that, for example, its FFO/net debt appears likely to fall persistently below 10%, RCF/net debt below the mid-single-digit percentages or net debt/fixed assets higher than 85% (as a proxy for net debt/RAB higher than 75%); (3) CDP RETI's adoption of a more aggressive financial policy; or (4) a

significant change in CDP RETI's ownership structure, if it leads to a less supportive stance from its shareholders.

2i Rete Gas S.p.A.

An upgrade of 2iRG is unlikely and would be contingent on an upgrade of the Italian government's rating, and would be conditional upon an improvement in 2iRG's financial profile such that its FFO/net debt is comfortably in the mid- to high-tens in percentage terms, RCF/net debt in the double digits in percentage terms and net debt/fixed assets is below 70%.

Any downward move in the Italian sovereign rating could potentially result in a corresponding adjustment of 2iRG's rating, particularly if associated with a deterioration of the domestic macroeconomic environment. Downward pressure on the rating could also result from (1) a weakening in FFO/net debt below 10% or net debt/fixed assets above 85%, for example, as a result of operating performance shortfalls, increased investments or higher-than-expected dividend payouts; or (2) adverse regulatory developments, evidence of political interference or discriminatory fiscal measures, which will hydro 2iRG's credit risk profile.

A2A S.p.A.

An upgrade of A2A is unlikely and would be contingent on an upgrade of the Italian government's rating, and would be conditional upon a significant improvement in A2A's financial profile such that its FFO/net debt would be in the high 20s in percentage terms and RCF/net debt in the 20s in percentage terms, both on a sustained basis, while maintaining its solid liquidity profile and a diversified lending base.

Any downward move in the Italian sovereign rating could potentially result in a corresponding adjustment of A2A's rating, particularly if associated with a deterioration of the domestic macroeconomic environment. Downward pressure on the rating could also result from (1) a weakening in the company's financial profile with key metrics falling persistently below the low 20s in percentage terms and RCF/net debt below the high teens in percentage terms; (2) adverse fiscal measures, evidence of adverse political interference that could hurt the company, or (3) significant deterioration of the company's business risk profile.

ENEL S.p.A.

An upgrade of Enel is unlikely and would be contingent on an upgrade of the Italian government's rating, and would be conditional upon the group demonstrating significantly stronger financial metrics than we anticipate over the medium term.

Any downward move in the Italian sovereign rating could potentially result in a corresponding adjustment of Enel's rating, particularly if associated with a deterioration of the domestic macroeconomic environment. Downward pressure on the rating could also result from (1) a weakening in the company's financial profile with key metrics falling persistently below 20% or RCF/net debt below the low teens in percentage terms; or (2) a challenge to the execution of the group's strategy of switching its business risk profile to lower-risk activities.

Endesa S.A.

Endesa's rating could be upgraded if Enel's ratings were to be upgraded, and if the company's own capital structure were not to diverge significantly from that of its parent.

Endesa's rating could be downgraded if Enel's ratings were to be downgraded; or the company's stand alone risk profile were to deteriorate significantly from the current strong level because of a significant deterioration in its domestic operating environment or an increase in its leverage in its capital structure.

The principal methodologies used in rating A2A S.p.A., ENEL S.p.A. and Hera S.p.A. were Unregulated Utilities and Unregulated Power Companies published in May 2017 and available at <https://ratings.moodys.com/api/rmc-documents/75129>, and Government-Related Issuers Methodology published in February 2020 and available at <https://ratings.moodys.com/api/rmc-documents/64864>. The principal methodologies used in rating ACEA S.p.A. were Regulated Water Utilities published in June 2018 and available at <https://ratings.moodys.com/api/rmc-documents/55428>, and Government-Related Issuers Methodology published in February 2020 and available at <https://ratings.moodys.com/api/rmc-documents/64864>. The principal methodology used in rating 2i Rete Gas S.p.A., CDP RETI S.p.A., Italgas S.p.A., SNAM S.p.A. and Terna - Rete Elettrica Nazionale S.p.A. was Regulated Electric and Gas Networks published in April 2022 and available at <https://ratings.moodys.com/api/rmc-documents/386754>. The principal methodology used in rating Endesa S.A., Enel Finance America LLC, ENEL Finance International N.V., ENEL

Finance International S.A. and ENEL Investment Holding B.V. was Unregulated Utilities and Unregulated Power Companies published in May 2017 and available at <https://ratings.moodys.com/api/rmc-documents/75129>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of these methodologies.

REGULATORY DISCLOSURES

The List of Affected Credit Ratings announced here are all solicited credit ratings. For additional information, please refer to Moody's Policy for Designating and Assigning Unsolicited Credit Ratings available on its website <https://ratings.moodys.com>. Additionally, the List of Affected Credit Ratings includes additional disclosures that vary with regard to some of the ratings. Please click on this link https://www.moodys.com/viewresearchdoc.aspx?docid=PBC_ARFTL468376 for the List of Affected Credit Ratings. This list is an integral part of this Press Release and provides, for each of the credit ratings covered, Moody's disclosures on the following items:

- EU Endorsement Status
- UK Endorsement Status
- Rating Solicitation
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- Person Approving the Credit Rating

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on <https://ratings.moodys.com/rating-definitions>.

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Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://ratings.moodys.com/documents/PBC_1288235.

The below contact information is provided for information purposes only. For disclosures on the lead rating analyst and the Moody's legal entity that issued the rating, please see the issuer/deal page on <https://ratings.moody's.com> for each of the ratings covered.

The relevant office for each credit rating is identified in "Debt/deal box" on the Ratings tab in the Debt/Deal List section of each issuer/entity page of the website.

REFERENCES/CITATIONS

[1] <https://ratings.moody's.com/api/rmc-documents/60258>

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