RATING COMMUNICATION

Cerved Rating Agency S.p.A. assigns the public rating

A3.1

to **E.S.TR.A. S.p.A. Energia Servizi Territorio Ambiente**

Prato (PO) – Via Ugo Panziera, 16 – Italy

Cerved Rating Agency on 24/12/2016 has assigned the public rating A3.1 to E.S.TR.A. S.p.A. Energia Servizi Territorio Ambiente.

E.S.TR.A. S.p.A. Energia Servizi Territorio Ambiente was founded in 2010 following the merger of three public energy companies which have a long-standing history of gas distribution in Tuscany: Consiag S.p.A. of Prato, Intesa S.p.A. of Siena and Coingas S.p.A. of Arezzo. These companies are owned entirely by 97 municipal authorities in the provinces of Arezzo, Florence, Grosseto, Pistoia, Prato and Siena.

Key rating factors

- ***Business model and market positioning***

The E.S.TR.A. Group organizes its business model into Strategic Business Units (SBU) referring to the sectors of purchasing, distribution and sale of natural gas and LPG, procurement and sale of electricity (EE), energy management related services, and telecommunications. The use of the above SBU allows the Group to intervene rapidly and accurately to meet the needs of the various stakeholders. The Group targets a diverse clientele comprising domestic, business, wholesalers and Public Administrations, and the number of customers has increased by 14% compared to 2014. As regards the domestic clients, all the EE customers belong to the liberalised market, whereas for the gas customers, the percentage of customers in the liberalised market is 37.6%, an increase compared to 31.9% in 2014. The Group’s strategy aims to consolidate its role as a multiutility at national level and, simultaneously, as an aggregator in the energy market.

- ***Key financial results***

In 2015 the Group recorded consolidated revenues of 832.6 million euro, a 12.3% increase compared to 2014. This increase is due mainly to the increase in volumes and turnover in the SBUs related to the sale of energy and gas. There was a decrease in the revenues from the gas distribution SBU due to the contribution of approximately 30 thousand redelivery points to Edma Reti Gas and, as from September 2015, due to the loss of the distribution contract for the municipality of Prato (approximately 77 thousand redelivery points). The E.S.TR.A. Group recorded an EBITDA of around 61.3 million euro with an EBITDA margin of 7.1%, a decrease compared to the 7.6% recorded in 2014. The reduction in margins is linked to the decrease in turnover recorded in the SBU for the distribution of gas, characterized by higher average margins, which still represents approximately 40% of the entire EBITDA. Despite the reduction in the EBITDA margin, the EBITDA, in absolute terms, recorded an increase in 2015 of approximately 4.1% compared to 2014, mainly driven by the SBU for the sale of energy and gas. The net profit for 2015 was around 33.9 million (10.2 million in 2014) and included the considerable extraordinary income (54.9 million euro) recognised from sale of the distribution network of the Municipal Authority of Prato, partly offset by write offs in relation to the authorization and the design and development capitalised costs of the wind farm by the subsidiary Andali Energia S.r.l. (approximately 9.3 million). The Net debt of 167.5 million euro showed a 20.1% decrease compared to 2014, and was represented mainly by the long term debt. The Net debt/equity and Net debt/EBITDA ratios were 0.62x and 2.73x respectively (0.86x and 3.59x in 2014). The 2016 budget envisages a significant increase in revenues and operating margins. In fact, the half-yearly results as at

June 2016 confirms the budget, recording a turnover of 485.6 million euro, an increase of 10.3% compared to the same period in 2015, and an increase in the EBITDA which is around 44.7 million euro, with an EBITDA margin of 8.9% (7.0% in the 2015 half-yearly report). The growth of the EBITDA can be attributed both to the procurement policy adopted by the Group, also sustained by the favourable market trend, and to the effect of the consolidation of the companies Prometeo, Coopgas and Gas Tronto, acquired between 2015 and 2016.

- ***Liquidity***

The Group shows the capacity to generate liquidity by its core business with a positive net Operating Cash Flow in the three-year period 2013-15. The Free Cash Flow in 2014 was negative due to investments in the Distribution SBU, while in 2015 it was positive due to the sale of part of the networks. In November 2016 the Group issued a bond for 80 million euro on the Dublin stock exchange to support the development of the business plan. However, there are no plans to use the liquidity obtained from the issue by 31/12/2016 with a consequent neutral impact on the end-of-year net debt position.

Key risk factors

- **Market risk**

The Group is exposed to the price variability of energy commodities. The risk is partially mitigated by the use of derivatives and diversification of the business. The sector is further significantly influenced by the complexity and evolution of the regulatory reference framework.

- **Operational risk**

The operational risks are partly limited by the adoption of the internal controls procedures and investments in advanced IT systems. The Group manages the risk linked to coordination of the activities of its subsidiaries, implementing procedures designed to improve efficiency at organisation and management level. Procurement is moderately diversified between different operators.

- **Financial risk**

The E.S.TR.A. Group has at its disposal good level of liquidity and various credit lines, and is therefore able to manage the liquidity risk deriving from any financial needs. With regards to the substantial long-term financing E.S.TR.A. partially mitigates the risk deriving from interest rate fluctuation by using appropriate financial derivatives. The credit risk is monitored by the company, via selection of the commercial counterparties on the basis of their credit standing.

Rating assumptions

- Level of EBITDA margin no lower than 7.5%.
- Maintenance of positive net operating cash flow and improvement of free cash flow.
- Control of financial indebtedness and Net debt/equity and Net debt/EBITDA ratios.

Rating sensitivities

- An increase in net financial indebtedness with Net debt/equity ≥ 1.0x or Net debt/EBITDA ≥ 3.5x, failure to achieve profitability levels and an increase in the credit risk could entail a negative rating action.
- Achievement of the results forecast by the Business Plan would allow maintenance of the rating class attributed.

The applied methodology is published on Cerved Rating Agency's website: www.ratingagency.cerved.com

Lead analyst: Nadya Volkova – nadya.volkova@cerved.com
Rating Committee Chairperson: Cristina Zuddas – cristina.zuddas@cerved.com