RATING COMMUNICATION

Cerved Rating Agency S.p.A. affirms at

A3.1

the public rating assigned to **E.S.TR.A. S.p.A.**

Prato (PO) – Via Ugo Panziera, 16

Cerved Rating Agency on 12/12/2019 has confirmed the public rating A3.1 to E.S.TR.A. S.p.A.

Date of first issuance of the rating: 24/12/2013

The rating action reflects the updated financial information, with regard to figures from both the consolidated financial statements for the year ended December 31,2018 and the FY19 interim results.

Boost of business volumes – In FY18 the adoption of new IFRS 15 accounting principle resulted in a drop of total revenues, with a consolidated Value of Production decreased to 839,7 million (-17,3% YoY) mainly related to SBU Trading, despite higher volumes during the period. According to management forecast, furtherly strengthened by interim results registered in the first months of the year, in FY19 Group turnover will show a significant increase, primarily driven by the growth of SBU Gas e EE Sales (expansion of customer base).

Improvement of operating margin in FY19 – The increasing gas prices in 2018 has strongly impacted operating profitability, also due to hedging policies not fully aligned with portfolio structure, and led to a reduction of EBITDA margin adjusted at 7,5% (vs 10,8% in FY17 restated according to IFRS 15). In light of the strengthening of Risk Management function and hedging strategies, together with the Group reorganization aimed at higher operating efficiency, ESTRA forecasts a slight improvement in margins, regarding all the business lines. Based on the ongoing trend observed, Cerved Rating Agency considers such estimates to be reliable.

Financial debt in significant increase but steadily sustainable – The relevant FY18 investments, mainly related to corporates acquisitions, led to a higher financial indebtedness, with a Net Debt increased to 259,7 million as of December 2018 (+43,6 million compared to previous period). Nevertheless, such level of leverage remains sustainable, in relation to margins achieved and to the solid equity of the Group. A further growth of Net Debt is expected as of December 2019, driven by the acquisition of Murgia Reti Gas S.r.l., without however a significant worsening of debt coverage ratios. Starting from the next fiscal years, management forecasts a progressive reduction of Net Debt, capitalizing on volumes and operating margin growth. The progress of the integration of M&A operations and financial leverage dynamics will be monitored by Cerved Rating Agency.

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

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Cerved Rating Agency has assigned the rating in compliance with Regulation CE1060/2009 and following modifications and integrations; it is an opinion on the creditworthiness of the rated entity and it summarizes the reliability or the insolvency probability of the entity.
The rating issued by Cerved Rating Agency is not an investment advice, nor a form of financial consultancy; it is not a recommendation for the purchase or sale of shares or for holding particular investments, nor gives it any advice to a particular investor to make a particular investment.
The issued rating is subject to an on-going monitoring until its withdrawal. The rating has been solicited by the rated entity, or a related third party, which has participated to the process providing the analytical team with the requested information. The information used for the analysis includes available public information and proprietary information obtained from sources deemed reliable by Cerved Rating Agency. As per applicable Regulation the rating was disclosed to the rated entity before being issued to review factual errors.