

Rating object

Naturgy Energy Group, S.A.
 Naturgy Finance B.V.
 Naturgy Capital Markets, S.A.
 Long Term Local Currency Senior unsecured issues Naturgy Finance B.V.
 Long Term Local Currency Senior unsecured issues Naturgy Capital Markets, S.A.

Rating incl. outlook / watch

BBB+ / negative
 BBB+ / negative
 BBB+ / negative
 BBB+ / negative
 BBB+ / negative

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

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

Rating object	Date of inception	Disclosure to rated entity	Maximum validity
Naturgy Energy Group, S.A.	17.05.2021	17.05.2021	Until withdrawal of the rating
Naturgy Finance B.V.	17.05.2021	17.05.2021	Until withdrawal of the rating
Naturgy Capital Markets, S.A.	17.05.2021	17.05.2021	Until withdrawal of the rating
Long Term Local Currency Senior unsecured issues Naturgy Finance B.V.	17.05.2021	17.05.2021	Until withdrawal of the rating
Long Term Local Currency Senior unsecured issues Naturgy Capital Markets, S.A.	17.05.2021	17.05.2021	Until withdrawal of the rating

There occurred no changes after the communication of the rating to the rating object.

Rating summary:

Creditreform Rating (CRA) has changed the outlook of the unsolicited, public corporate issuer ratings of Naturgy Energy Group, S.A. (hereinafter 'Naturgy' or 'the Company'), Naturgy Finance B.V. and Naturgy Capital Markets, S.A., as well as the unsolicited corporate issue ratings of the long-term local currency senior unsecured notes issued by Naturgy Finance B.V. and Naturgy Capital Markets, S.A. from **stable** to **negative**, and confirmed the ratings at **BBB+**.

The main reason for the change in outlook is the negative impact of the COVID-19 pandemic on the Company's business performance in 2020, which was affected by lower global energy demand and production cuts as a result. Macroeconomic developments which reflected a sharp decline in raw material prices, including gas and wholesale electricity prices, led to a decrease in sales. Moreover, impairment effects on long-term assets in the amount of EUR 1,363 million burdened the Group's earnings in the 2020 financial year. In addition, uncertainties caused by the COVID-19 pandemic led to a significant depreciation of Latin American currencies against the euro. In the 2020 financial year, the Naturgy Energy Group achieved sales of EUR 15,345 million (2019: EUR 20,761 million), EBIT of EUR 1,821 million (2019: EUR 2,673 million), EAT of EUR -31 million (2019: EUR 1,796 million), and EAT after transfer of EUR -347 million (2019: EUR 1,401 million). The analysis of the structured financial key ratios for 2020 shows a deterioration compared to the previous year. Due to the negative consolidated annual result and high dividend distributions, the Creditreform Rating adjusted equity ratio fell noticeably from 31.36% to 24.41%. The ratio of the analytical key figure Net total debt / EBITDA adj. increased compared to the previous year due to deteriorated earnings capacity and a drop in EBITDA to 6.83 (2019: 5.33), as well as an increase in total liabilities. However, net financial debt decreased compared to the previous year, amounting to EUR 13,612 million (2019: EUR 15,268 million). The Company's original calculation of net financial debt / EBITDA shows an increase with a value of 3.9 (2019: 3.6). Based on the 2020 consolidated financial statements, we continue to assess the Company's liquidity situation as solid. In light of the cash balance, which increased to EUR 3,927 million (2019: EUR 2,685 million), and the free cash flow after minorities of EUR 1,626 million (2019: EUR 1.958 million) against the background of the available financial facilities, as well as the diversified maturity structure of the Company's financing and established access to the capital market, we currently see the liquidity situation as unproblematic.

Due to a significant recovery in oil and gas prices as well as wholesale electricity prices, Naturgy's sales improved in the first quarter of 2021 and largely returned to pre-pandemic levels. As of 31 March 2021, liquidity amounted to EUR 9,703 million, including EUR 4,036 million in cash and cash equivalents and EUR 5,667 million in undrawn and fully committed credit lines. At the same time, the ECP program was fully undrawn. Despite the Company's inflexible dividend policy, we assume that Naturgy's credit metrics will recover over the next few years on the back of supportive performance in its regulated and contracted businesses (approx. 70% of EBITDA), which will have a stabilizing effect on the rating.

We take a positive view of the agreement reached on Union Fenosa Gas to resolve the disputes that have been ongoing since 2012. Naturgy's share will include cash payments of approximately USD 0.6 billion as well as most of the assets outside Egypt, excluding UFG's commercial activities in Spain. In addition, an agreement to sell the 96.04% stake in Chilean subsidiary Compañía General de Electricidad S.A. in Chile to State Grid International Development Limited for a total purchase price (equity value) of EUR 2,570 million is expected to close in the second quarter of 2021. On 26 January 2021, IFM Global Infrastructure Fund, an investment fund operated by Australian pension funds, applied for approval from the Spanish regulatory authority for a EUR 5.06 billion offer for a 22.7% stake in Naturgy. Under the laws protecting companies, which Madrid considers strategic, the agreement will require approval from the Spanish government. It is currently unclear, however, what it will mean for the Group's governance and financial policies if this transaction is completed. Potential financial risks could arise from international legal disputes; these include a lawsuit by Naturgy against Colombia, which the international arbitration tribunal dismissed in March 2021, for the seizure of its subsidiary Electricaribe for 4.8 trillion pesos (USD 1.3 billion).¹ In addition, however, the Company's high level of dependency on the economic situation in Latin American countries leads to a certain degree of uncertainty as to how quickly its business activities will recover in the current deteriorating economic environment, if indeed they can recover at all. If not, this could mean a possible reduction in the value of the key figures relevant to the rating. On the other hand, should the economic situation stabilize sooner than we currently expect, or if there is no significant adverse impact on Naturgy's performance during the fiscal year 2021, we will revise the outlook to stable. The rating remains at BBB+, confirming that Naturgy and its related rating properties have a highly satisfactory level of creditworthiness, mainly due to the Naturgy's strong position in its relevant geographic markets and to its diversified, systemically important business profile. The Company's solid financials and good access to the capital market also provide a good basis for overcoming potential challenges.

Primary key rating drivers:

- + Good business development in the first quarter of 2021
- + Solid liquidity as of 31 December 2020 and as of 31 March 2021
- + Diversified business and geographic mix
- + High proportion of regulated and contracted EBITDA
- + Development of renewables

- Significant decline in sales and net loss in the 2020 financial year due to lower gas and electricity requirements, as well as lower energy prices as a result of the COVID-19 pandemic
- High impairments on long-term assets
- Deterioration of the results of our financial key figure analysis 2020
- Currency weakness and ongoing economic uncertainty in Latin America
- High dividend payout
- Uncertainties regarding to what extent and how quickly the economic environment will recover from the effects of the Corona-19 pandemic

ESG-criteria:

CRA generally considers ESG factors (environment, social and governance) within its rating decisions. In the case of Naturgy Energy Group, S.A., we have identified ESG factors with significant influence on the following categories, which is described in the sections below.

(E) Environment (S) Social (G) Governance

- (E): Potential impairment losses on asset portfolio not in line with energy transition
- (E): Mid- to long term risks for the gas industry business model and the financing e.g. regarding to EU-Taxonomy

Due to social and political changes in relation to fossil fuels based on European and international environmental and climate protection goals, we see the business model and strategy of Naturgy being adversely affected. The Company's environmental plan adopted in December 2019 only set targets for reducing greenhouse gas emissions until 2022. The group currently has no clear medium- to long-term strategic orientation with regard to ESG / sustainability targets.

Naturgy believes that natural gas plays an important role in the energy transition, especially as an alternative to coal. However, methane, which is released when gas is burned, has become a target for environmentalists. Natural gas is increasingly under scrutiny for methane emissions, which are far more harmful than carbon dioxide emissions. In our opinion, it will be essential for Naturgy's European Business that natural gas activities are classified as EU-Taxonomy compliant. However, in this regard and as far as we know, the Taxonomy regulation delegated act C(2021) 2800/3

¹ <https://www.reuters.com/article/idUSL1N2LA2HL>

is still provisional regarding the gas industry. In our opinion, there remains significant uncertainty as to whether and which natural gas activities can be regarded as taxonomy compliant. We consider that in the long term there may be a risk that the Company could be stuck with stranded assets, as potential customers may potentially opt for other low-carbon alternatives instead of gas, or the regulatory framework regarding natural gas as an energy source could tighten. Although we derive potential risks for the Naturgy Group from its gas activities, we see the Company as a whole to be on a satisfactory path. This also includes the issuance of green bonds and the development of renewable energies, in particular wind, solar and hydropower. Naturgy also maintained its ambition to improve its position in the international renewable energy market. In January 2021, the Company completed its operations to enter the U.S. market by purchasing a portfolio of renewable energy projects in the first phase of development, including 8,000 MW of solar power and 4,000 MW of storage. The closure of the Company's coal-fired power plants in June 2020, and its plans to replace them with new renewable power plants, are also contributing to the reduction in greenhouse gas emissions.

A general valid description of Creditreform Rating AG, as well as a valid description of corporate ratings for understanding and assessing ESG factors in the context of the credit rating process, can be found [here](#).

Rating scenarios:

Please note: The scenarios are based on information available at the time of the rating. Within the forecast horizon, circumstances may occur that could lead to a change of the rating out of the indicated range.

Best-case scenario: BBB+

In our best-case scenario for one year, we assume a stable rating of BBB+, based on our assessment that a noticeable economic recovery will lead to a normalization of energy demand as well as of gas and electricity prices. As a result, while maintaining its cost discipline and solid funding structure, the operating results of the Company will improve. Taking into account the total inflationary raw material prices, the development of Latin American exchange rates, Naturgy's climate protection obligations, and the negative impact of the coronavirus outbreak, we assess the probability of a rating improvement in the short term as low.

Worst-case scenario: BBB

In our worst-case scenario for one year, we assume a rating of BBB. We anticipate that the economic environment will remain subdued, or will recover only very slowly, which will keep energy demand low and continue to put pressure on commodity prices, especially in the absence of sufficient easing of the pandemic situation and if progress in the vaccination campaign is slow. The most important financial ratios for 2021 remain at the 2020 level. In addition, significant political or geopolitical changes could lead to a downgrade.

Analysts / Person approving (PAC):

Name	Function	Email-Address
Natallia Berthold	Lead analyst	N.Berthold@creditreform-rating.de
Rudger van Mook	Analyst	R.vanMook@creditreform-rating.de
Stephan Giebler	PAC	G.Giebler@creditreform-rating.de

Initial rating:

Rating object	Event	Rating created	Publication date	Monitoring until	Result
Corporate Issuer Rating of Naturgy Energy Group, S.A.	Initialrating	17.08.2018	24.08.2018	28.05.2020	BBB+ / stabile
Corporate Issuer Rating of Naturgy Finance B.V.	Initialrating	17.08.2018	24.08.2018	28.05.2020	BBB+ / stabile
Corporate Issuer Rating of Naturgy Capital Markets, S.A.	Initialrating	17.08.2018	24.08.2018	28.05.2020	BBB+ / stabile
LT LC Senior Unsecured Issues issued by Naturgy Finance B.V.	Initialrating	17.08.2018	24.08.2018	28.05.2020	BBB+ / stabile
LT LC Senior Unsecured Issues issued by Naturgy Capital Markets, S.A.	Initialrating	17.08.2018	24.08.2018	28.05.2020	BBB+ / stabile

Status of solicitation and information basis:

The present rating is, in the regulatory sense, a public **unsolicited** rating. The rating object participated in the creation of the rating as follows:

Unsolicited Corporate Issuer / Issue Rating	
With rated entity or related third party participation	No
With access to internal documents	No
With access to management	No

Rating methodology / Version / Date of application:

Rating methodology	Version number	Date
Corporate Ratings	2.3	29.05.2019
Non-financial Corporate Issue Ratings	1.0	October 2016
Rating Criteria and Definitions	1.3	January 2018

Regulatory requirements:

In 2011 Creditreform Rating AG was registered within the European Union according to EU Regulation 1060/2009 (CRA-Regulation). Based on the registration Creditreform Rating AG (CRA) is allowed to issue credit ratings within the EU and is bound to comply with the provisions of the CRA-Regulation. The rating was not endorsed by Creditreform Rating AG (Article 4 (3) of the CRA-Regulation).

Conflicts of interest

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.

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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

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Between the time of disclosure of the credit rating to the rated entity and the public disclosure, no amendments were made to the credit rating.

The Basic Data Information Card indicates the principal methodology or version of methodology that was used in determining the rating, with a reference to its comprehensive description.

In cases where the credit rating is based on more than one methodology or where reference only to the principal methodology might cause investors to overlook other important aspects of the credit rating, including any significant adjustments and deviations, Creditreform Rating AG

explains this fact in the credit rating report and indicates how the different methodologies or other aspects are taken into account in the credit rating. This information is integrated in the credit rating report.

The meaning of each rating category, the definition of default or recovery and any appropriate risk warning, including a sensitivity analysis of the relevant key rating assumptions such as mathematical or correlation assumptions, accompanied by worst-case scenario credit ratings and best-case scenario credit ratings are explained.

The date at which the credit rating was initially released for distribution and the date when it was last updated, including any rating outlooks, is indicated clearly and prominently in the Basic Data Information Card as a “rating action”; initial release is indicated as “initial rating”, other updates are indicated as an “update”, “upgrade” or “downgrade”, “not rated”, “confirmed”, “selective default” or “default”.

In the case of a rating outlook, the time horizon is provided during which a change in the credit rating is expected. This information is available within the Basic Data Information Card.

In accordance with Article 11 (2) EU-Regulation (EC) No 1060/2009, a registered or certified credit rating agency shall make available, in a central repository established by ESMA, information on its historical performance data including the rating transition frequency and information about credit ratings issued in the past and on their changes. Requested data are available at the ESMA [website](#).

An explanatory statement of the meaning of Creditreform Rating AG's default rates are available in the credit rating methodologies disclosed on the website.

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Creditreform Rating AG

Contact information

Creditreform Rating AG

Europadamm 2-6
D-41460 Neuss

Phone: +49 (0) 2131 / 109-626
Telefax: +49 (0) 2131 / 109-627

E-Mail: info@creditreform-rating.de
Web: www.creditreform-rating.de

CEO: Dr. Michael Munsch
Chairman of the Board: Dr. Hartmut Bechtold

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