

Creditreform Corporate Issuer / Issue Rating

Naturgy Capital Markets, S.A.

Creditreform Rating
www.creditreform-rating.de

Rating object	Rating information	
Naturgy Capital Markets, S.A. Creditreform ID: 2000000652 Incorporation: 23 May 2005 (Main) Industry: issuance of financial debt instruments for the account of Naturgy Energy Group, S.A. CEO: Francisco Reynés <u>List of rating objects:</u> Long-term Corporate Issuer: Naturgy Capital Markets, S.A. Long-term Local Currency (LC) Senior Unsecured Issues	Corporate Issuer Rating: BBB+ / stable	Type: Initial rating unsolicited
	LT Senior Unsecured Issues, LC: BBB+	Other: n.r.
	Prepared on: 17 August 2018 Monitoring until: withdrawal of the rating Publication: 24 August 2018 Rating methodology: CRA "Corporate Issuer Ratings" CRA "Corporate Issue Rating" Rating history: www.creditreform-rating.de	

Content

Issuer rating	1
Issue rating	3
Appendix	5

Issuer rating

Company

Naturgy Capital Markets, S.A. is a limited liability company incorporated in Spain (Madrid) in 2005. The company is a special purpose entity that raises capital for the account of Naturgy Energy Group, S.A. (Group) ("NGE"). All debt securities issued by Naturgy Capital Markets, S.A. within the framework of the EMTN Programme are unconditionally and irrevocably guaranteed by Naturgy Energy Group, S.A.

Naturgy Energy Group, S.A. (formerly Gas Natural SDG, S.A.) and its subsidiaries is a public company incorporated in 1843 and located in Barcelona, Spain. The Group is the biggest integrated gas and electricity company in Spain and overall a leading multinational Group in the energy sector. Its core businesses are the complete gas life cycle as well as the generation, distribution and commercialization of electricity. NEG disposes of 15.5 GW of installed power capacity and 116,181 km of gas distribution network that serve 18 million customers in more than 30 countries. The Group offers also other lines of business, such as energy services.

In 2017, revenues of NEG increased by 0.5%, amounting to EUR 23,306 million (2016: EUR 23,184 million). The Group achieved an EBITDA amounting to EUR 3,760 million (2016: EUR 4,970 million) and a net profit of EUR 1,360 million (2016: EUR 1,347 million). The decrease in EBITDA reflects the cessation of the gas distribution business in Italy and Colombia, the electricity distribution business in Moldova, the gas supply business in Italy, and the power generation business in Kenya. The Group employs approx. 15,375 people.

On 27 June 2018, the Group sets its new strategic plan for 2018-2020, which established a new industrial model, designed to better answer to the energy transition challenges. In the course of this plan, the company changed its name and "Gas Natural Fenosa" became "Naturgy".

Analysts

Marie Watelet
Lead Analyst
M.Watelet@creditreform-rating.de

Rudger van Mook
Co-Analyst
R.vanmook@creditreform-rating.de

Neuss, Germany

The following table shows some key financials of NEG.

Table 1: Financials of Naturgy Energy Group, S.A. (Group) | Source: Gas Natural SDG, S.A. (Group) annual report 2017, standardized by CRA

Financial ratios ¹ extract Basis: consolidated annual statement per 31.12 (IFRS)	CRA standardized figures	
	2016	2017
Revenues	EUR 23,184 million	EUR 23,306 million
EBITDA	EUR 4,970 million	EUR 3,760 million
EBIT	EUR 3,006 million	EUR 1,427 million
EAT	EUR 1,347 million	EUR 1,360 million
Total assets adj.	EUR 43,670 million	EUR 45,093 million
Equity ratio adj.	41.4 %	40.8 %
Capital lock-up period	51.5 days	45.2 days
Short-term capital lock-up	16.0 %	19.3 %
Return on investment	5.8 %	5.3 %
Net debt / EBITDA adj.	5.0	6.0
Ratio of interest expenses to debt	3.7 %	3.0 %

Regarding the business development and outlook of the issuer, we refer to the report on the unsolicited corporate issuer rating of Naturgy Energy Group, S.A. (Group) – formerly Gas Natural SDG, S.A. (Group) – as of 17 May 2017 (BBB+ / stable) and the information published by the Group since then and, among other things, to the annual report 2017 and half-year 2018 report of Naturgy Energy Group, S.A. (Group). The company faces specific structural risks, business risks and financial risks that are described in detail in the rating report. Since that date, the rating has been subject to an ongoing monitoring. There have been no changes in our rating assessment so far.

Rating result

Given the fact that Naturgy Capital Markets, S.A. is a fully-owned subsidiary of Naturgy Energy Group, S.A. as well as based on the financial relations between the companies and the existence of the unconditional and irrevocable guarantee, we derive the rating of Naturgy Capital Markets, S.A. from the corporate issuer rating of Naturgy Energy Group, S.A. and assign to both companies the same corporate issuer rating. Information about the current corporate issuer rating of Naturgy Energy Group, S.A. (Group) – formerly Gas Natural SDG, S.A. (Group) – are available on the website of Creditreform Rating AG.

The current rating of BBB+ attests a good level of creditworthiness to Naturgy Capital Markets, S.A., which represents a low to medium default risk in comparison with the sector and the overall economy.

Best-case scenario

Best-case scenario: BBB+
Worst-case scenario: BBB

In our best-case scenario for one year, we assume a rating of BBB+. As the rating of the issuer is linked to the rating of Naturgy Energy Group, S.A. (Group), we refer to the report on the unsolicited corporate issuer rating of Naturgy Energy Group, S.A. (Group) – formerly Gas Natural SDG, S.A. (Group) – as of 17 May 2017 (BBB+ / stable).

Worst-case scenario

In our worst-case scenario for one year, we assume a rating of BBB. As the rating of the issuer is linked to the rating of Naturgy Energy Group, S.A. (Group), we refer to the report on the unsolicited corporate issuer rating of Naturgy Energy Group, S.A. (Group) – formerly Gas Natural SDG, S.A. (Group) – as of 17 May 2017 (BBB+ / stable).

Note:

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

Issue rating

Rating object

The rating objects of this issue rating are exclusively the long-term senior unsecured issues, denominated in EUR, issued by Naturgy Capital Markets, S.A. – formerly Gas Natural Capital Markets, S.A. The current Notes have been issued within the framework of a Euro Medium Term Note Programme (“EMTN Programme”), of which the latest base prospectus dates 30 November 2017.

The EMTN Programme amounts to maximum EUR 15 bn and debt instruments can be issued by two different issuers: Naturgy Capital Markets, S.A. and Gas Natural Fenosa Finance B.V. All the issues under the Programme are guaranteed by Naturgy Energy Group, S.A. – formerly Gas Natural SDG, S.A. – the parent company of the issuers. Furthermore, the Notes benefit from a negative pledge provision and a cross-default mechanism. Home member state of Naturgy Capital Markets, S.A. is United Kingdom and of Gas Natural Fenosa Finance B.V. is Luxembourg. Unlisted Notes may be issued by Gas Natural Fenosa Finance B.V. but not by Naturgy Capital Markets, S.A. The Notes' issue proceeds will be lent on to Naturgy Energy Group, S.A. and, unless otherwise set forth in the final terms of each tranche of Notes, will be used by the Group for general purposes or to finance or refinance eligible green projects of the Naturgy Energy Group (green bonds).

Rating result

We assign a rating of BBB+ to the long-term local currency senior unsecured debt securities issued by Naturgy Capital Markets, S.A. The decision is derived from the corporate issuer rating and its outlook, taking into account the specific credit enhancement of the issues, namely the unconditional and irrevocable guarantee of the parent company. Given the fact that the corporate issuer rating already derives from the corporate issuer rating of Naturgy Energy Group, S.A., the guarantee does not lead to an upgrade of the rating but has rather a stabilizing effect on the rating.

The rating of BBB+ represents a highly satisfactory level of credit quality with a low to medium investment risk.

Creditreform Corporate Issuer / Issue Rating

Naturgy Capital Markets, S.A.

Creditreform Rating
www.creditreform-rating.de

The following tables gives overviews of the ratings attributed by CRA as well as of the current EMTN Programme.

Table 2: Summary of CRA ratings | Source: CRA

Rating objects	Detail information	
	Date	Rating
Naturgy Energy Group, S.A. (formerly Gas Natural SDG, S.A.)	17.05.2017	BBB+ / stable
Naturgy Capital Markets, S.A. (formerly Gas Natural Capital Markets, S.A.)	17.08.2018	BBB+ / stable
Gas Natural Fenosa Finance B.V.	17.08.2018	BBB+ / stable
Long-term LC senior unsecured issues of Naturgy Capital Markets, S.A. (formerly Gas Natural Capital Markets, S.A.)	17.08.2018	BBB+
Long-term LC senior unsecured issues of Gas Natural Fenosa Finance B.V.	17.08.2018	BBB+
Other	--	n.r.

Table 3: Overview of 2017 EMTN Programme | Source: Naturgy, prospectus dated 30 November 2017

Overview EMTN Programme			
Programme Volume	EUR 15,000,000,000	Maturity	Depending on the respective Notes
Issuer	Naturgy Capital Markets, S.A. and Gas Natural Fenosa Finance B.V.	Coupon	Depending on the respective Notes
Arranger	Citigroup Global Markets Limited	Currency	Depending on the respective Notes
Credit Enhancement	Guarantee from Naturgy Energy Group, S.A.	ISIN	Depending on the respective Notes

At the time of the rating, the following EUR-Notes issued by Naturgy Capital Markets, S.A. are rated by Creditreform Rating AG:

Table 4: Unsolicited ratings of Naturgy Capital Markets, S.A.'s long-term LC senior unsecured issues | Source: CRA

ISIN	EUR	Issue date	Maturity	Unsolicited rating
XS0627188468	292,400,000	24.05.2011	24.05.2019	BBB+
XS0829360923	434,400,000	25.09.2012	27.01.2020	BBB+
XS1590568132	1,000,000,000	11.04.2017	11.04.2024	BBB+
XS0458749826	630,850,000	02.11.2009	02.11.2021	BBB+
XS0436928872	356,200,000	09.07.2009	09.07.2019	BBB+
XS0479542580	686,250,000	27.01.2010	27.01.2020	BBB+

All future LT LC senior unsecured issues that will be issued by Naturgy Capital Markets, S.A. denominated in euro will, until further notice, receive the same ratings than the current LT LC senior unsecured issues. Issues in another currencies than euro or other types of debt instruments have not been rated by CRA. The current ratings and information can be seen on the website of Creditreform Rating AG.

Creditreform Corporate Issuer / Issue Rating

Naturgy Capital Markets, S.A.

Creditreform Rating
www.creditreform-rating.de

For information purposes, the following table shows the ratings of the LT LC senior unsecured issues of Gas Natural Fenosa Finance B.V., the other issuer under the EMTN Programme.

Table 5: Unsolicited ratings of Gas Natural Fenosa Finance B.V.'s long-term LC senior unsecured issues | Source: CRA

ISIN	EUR	Issue date	Maturity	Unsolicited rating
XS1041934800	500,000,000	11.03.2014	11.03.2024	BBB+
XS1396767854	600,000,000	19.04.2016	19.04.2026	BBB+
XS0875343757	462,000,000	17.01.2013	17.01.2023	BBB+
XS1062909624	200,000,000	08.05.2014	08.05.2023	BBB+
XS1755428502	850,000,000	29.01.2018	29.01.2028	BBB+
XS1401303976	300,000,000	25.04.2016	25.04.2021	BBB+
XS0981438582	332,900,000	17.10.2013	15.04.2021	BBB+
XS0914400246	491,000,000	11.04.2013	11.04.2022	BBB+
XS1551446880	1,000,000,000	19.01.2017	19.01.2027	BBB+
XS1718393439	800,000,000	15.11.2017	15.05.2025	BBB+
XS1170307414	500,000,000	21.01.2015	21.01.2025	BBB+
XS1695276367	300,000,000	06.10.2017	05.10.2029	BBB+

Appendix

Rating history

Table 6: Corporate issuer Naturgy Energy Group, S.A. (Group) | Source: CRA

Event	Rating date	Publication date	Monitoring period until	Result
Initial rating	17.05.2017	26.05.2017	Withdrawal of the rating	BBB+ / stable

Table 7: Corporate issuer Naturgy Capital Markets, S.A. | Source: CRA

Event	Rating date	Publication date	Monitoring period until	Result
Initial rating	17.08.2018	24.08.2018	Withdrawal of the rating	BBB+ / stable

Table 8: LT LC senior unsecured issues issued by Naturgy Capital Markets, S.A. | Source: CRA

Event	Rating date	Publication date	Monitoring period until	Result
Initial rating	17.08.2018	24.08.2018	Withdrawal of the rating	BBB+

Regulatory and legal disclosures

The present rating is an unsolicited rating. Creditreform Rating AG was not commissioned by the issuer with the preparation of the rating. The present analysis was prepared on a voluntary basis.

The rating is based on the analysis of published information and on internal evaluation factors. The quantitative analysis is primarily based on the last annual report of the issuer, the base prospectuses and on press releases of the company. The information and documents meet the requirements and are in accordance with the published Creditreform Rating AG's rating methodology.

The rating was conducted on the basis of Creditreform Rating's "Corporate Issue Ratings" methodology and the "Corporate Issuer Rating" methodology. A complete description of Creditreform Rating's rating methodologies is published on the following internet page: www.creditreform-rating.de.

The documents submitted and information gathered were sufficient to meet the requirements of Creditreform Rating AG's rating methodology. A complete description of Creditreform Rating's rating methodologies and Creditreform's basic document "Rating Criteria and Definitions" is published on the following internet page:

www.creditreform-rating.de/en/regulatory-requirements/

This rating was carried out by analysts Marie Watelet (m.watelet@creditreform-rating.de) and Rüdger van Mook (r.vanmook@creditreform-rating.de), both located in Neuss, Germany. A management meeting did not take place.

The rating was presented to the rating committee on 17 August 2018. The company examined the rating report prior to publication and was given at least one full working day to appeal the rating committee's decision and to provide additional information. The rating decision was not amended following this examination.

The rating will be monitored until CRA removes the rating and sets it to non-rated (n.r.).

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.

Please note:

This report exists in an English version only. This is the only binding version.

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, CRA will disclose all ancillary services in the credit rating report.

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, CRA 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 CRA website. Furthermore, CRA 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' 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 '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: <https://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml>.

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

Disclaimer

Any rating performed by Creditreform Rating AG is subject to the Creditreform Rating AG Code of Conduct which has been published on the web pages of Creditreform Rating AG. In this Code of Conduct, Creditreform Rating AG commits itself – systematically and with due diligence – to establish its independent and objective opinion as to the sustainability, risks and opportunities concerning the enterprise or the issue under review.

Future events are uncertain, and forecasts are necessarily based on assessments and assumptions. This rating is therefore no statement of fact, but an opinion. For this reason, Creditreform Rating AG cannot be held liable for the consequences of decisions made on the basis of any of their ratings. Neither should these ratings be construed as recommendations for investors, buyers or sellers. They should only be used by market participants (entrepreneurs, bankers, investors etc.) as one factor among others when arriving at corporate or investment decisions. Ratings are not meant to be used as substitutes for one's own research, inquiries and assessments.

We have assumed that the documents and information made available to us by the client are complete and accurate and that the copies provided to us represent the full and unchanged contents of the original documents. Creditreform Rating AG assumes no responsibility for the true and fair representation of the original information.

This report is protected by copyright. Any commercial use is prohibited without prior written permission from Creditreform Rating AG. Only the full report may be published in order to prevent distortion of the report's overall assessment. Excerpts may only be used with the express consent of Creditreform Rating AG. Publication of the report without the consent of Creditreform Rating AG is prohibited. Only ratings published on the Creditreform Rating AG web pages remain valid.

Creditreform Rating AG

Contacts

Creditreform Rating AG
Hellersbergstraße 11
D-41460 Neuss
Germany

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

E-mail info@creditreform-rating.de
www.creditreform-rating.de

CEO: Dr. Michael Munsch

Chairman of the Board: Prof. Dr. Helmut Rödl
HR Neuss B 10522