

**Rating object**

Infrabel S.A.

Long term local currency senior unsecured issues, issued by Infrabel S.A.

**Rating incl. outlook / watch**

AA-/ negative

AA- / negative

The present update 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
Infrabel S.A.	03.11.2022	03.11.2022	Until withdrawal of the rating
Long term local currency senior unsecured issues, issued by Infrabel S.A.	03.11.2022	03.11.2022	Until withdrawal of the rating

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

**Rating summary:**

Creditreform Rating has affirmed the unsolicited corporate issuer rating, as well as the unsolicited corporate issue rating of Infrabel S.A., at **AA-**. The outlook remains **negative**. The rating result of the unsolicited corporate issuer rating of Infrabel S.A. is predominantly based on its high systemic importance for Belgium and its close relationship with the Belgian government. Our assumption that the Belgian government will continue to offer financial support to Infrabel S.A. for both its operating and investing activities, as well as offer extraordinary financial support to Infrabel S.A. in case of financial difficulties, remains a driving factor in our rating assessment. In addition, Belgian legislation - in particular article 47, §1 of the railway code - stipulates that there should be an equilibrium between the revenues, costs and government subsidies under normal conditions over a period of a maximum of 5 years, which should protect the Group from any significant deterioration in its financial performance.

The negative outlook is based on the unsolicited sovereign rating for the Kingdom of Belgium, which was affirmed at **AA** with **negative** outlook as of 14.06.2022. Due to the absence of guarantees on indebtedness and no formal government protection against liquidity shortages, we assess the creditworthiness of Infrabel S.A. one notch below that of its majority shareholder (99.3%), the Kingdom of Belgium. A downgrade of the sovereign rating of Belgium would therefore lead to a downgrade in the rating of Infrabel.

During the 2021 business year, Infrabel generated revenues of EUR 650 million (2020: EUR 941 million), EBITDA before capital grants of EUR 63 million (2020: EUR: 47.63 million), EBIT of EUR 33 million (2020: EUR 15 million) and EAT of EUR 6 million (2020: EUR -25 million). The reduction in revenues mainly stems from a strong decline of EUR 321 million in the infrastructure fee following a change in the calculation of the tariff formula. The decline in infrastructure fees was compensated by an additional amount of EUR 342 million in operating grants, and shows a significant shift from revenues to grants. Additionally, Belgium suffered severe flooding, causing significant damage, which rendered the Belgian railway infrastructure partially inoperable. Also, COVID-19 continued to hamper traffic development, leading to lower infrastructure fees and higher operating costs. The financial consequences arising from the COVID-19 pandemic were compensated fully by an additional grant of EUR 39.9 million. Damage caused by the flood led to a loss of infrastructure fees of EUR 4 million and additional costs of EUR 33 million. Infrabel will also incur costs related to the floods in the coming years, as repair works could not all be executed during the 2021 business year. Infrabel is insured against such calamities and the Belgian state will further compensate the Group. During the business year, the Group already received EUR 63.2 million from the Belgian state and EUR 14.5 million from insurance companies as an advance to finance its operations, which helped reduce the negative impact and prevent a negative group result.

The Group is strongly dependent on cash-flows from grants. Without financial support from the government, the Company would not be able to fulfill its tasks as stipulated under the management contract. During the business year, the Group generated a negative FCF, including operating grants of EUR -1,033 million (EUR 2020: EUR -1,200 million). Adjusted by capital grants and interest grants received during the year, cash-flow after investments are positive at EUR 231 million (2020: EUR 77 million).

The Group's activities, investment plans and the grants it will receive are outlined in the management contract between the Belgian state and Infrabel. The current management contract has an original end date of 31 December 2012. However, according to article 5, §3 subsection two of the law of 21 March 1991, the management contract shall remain valid until a new management contract comes into force. The Belgian government regularly publishes amendments to these contracts to redefine the allocation of grants, or other material matters relating to the management of Infrabel. In order to comply with legislation stipulated in the 4<sup>th</sup> railway package of the EU, a new management contract needs to be drawn up. The government and Infrabel (and the NMBS) are currently negotiating the terms of these contracts. The new management contracts are expected to be ready by the end of 2022 or the beginning of 2023, and will have a duration of 10 years.

**Primary key rating drivers:**

- + Close relationship between the Government / Kingdom of Belgium (AA / negative) and Infrabel S.A.
  - + Reduced risk of insolvency due to the financial equilibrium guaranteed by legislation
  - + Monopoly position in railway infrastructure management in Belgium
  - + Strategic and systemic importance for the Kingdom of Belgium, high entry barriers
  - + Ongoing grants for both investments and operative business, additionally in the form of grants on interest payments
  - + Grant allocation revised upwards after implemented COVID-19 restrictions, to compensate for revenue decline
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- Decline in infrastructure fees due to COVID-19 restrictions; reduced railway traffic
  - No explicit short-term government guarantee against liquidity shortages
  - High capital intensity with high structural costs which cannot be recovered from operating income in the long term (dependency on grants)

**ESG-criteria:**

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

Due to tightening regulations over recent years with regard to environmental policy in Belgium and the European Union, we have changed our view with regard to ESG-factors of Infrabel, and see factors with significant influence, particularly with regard to environmental factors. We believe that the business model of Infrabel S.A. will contribute to the reduction of CO<sub>2</sub> emissions through the transport of cargo and passengers in Belgium. We view Infrabel as a Company that will play an important role in Belgian and European climate protection and transport policy in the future, which may ultimately lead to rising revenues. We do, however, view the fact that Infrabel has not published a recent sustainability report discussing its strategy with regard to ESG in more detail as negative.

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: AA-

In our best-case scenario for one year, we assume a rating of AA-. This scenario is closely linked to our assessment of the sovereign rating of the Kingdom of Belgium. As the outlook for the sovereign rating of the Kingdom of Belgium has been revised to negative, we view an upgrade of the unsolicited corporate issuer rating of Infrabel S.A. within a one-year period as unlikely. For more information, please see our rating report on the Kingdom of Belgium.

Worst-case scenario: A+

In our worst-case scenario for one year, we assume a rating of A+. This scenario is closely linked to our assessment of the sovereign rating of the Kingdom of Belgium and is based on the assumption that legislation remains unchanged and the credit rating of Belgium is downgraded by one notch to A+

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**Initial rating:**

Rating object	Event	Rating created	Publication date	Monitoring until	Result
Corporate Issuer Rating of Infrabel S.A.	Initial rating	19.12.2018	21.12.2018	03.12.2020	AA- / stable
LT LC Senior Unsecured Issues issued by Infrabel S.A.	Initial rating	19.12.2018	21.12.2018	03.12.2020	AA- / stable

**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
<a href="#">Corporate Ratings</a>	2.4	01.07.2022
<a href="#">Government-related Companies</a>	1.0	19.04.2017
<a href="#">Non-financial Corporate Issue Ratings</a>	1.0	October 2016
<a href="#">Rating Criteria and Definitions</a>	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<sup>1</sup> was not endorsed by Creditreform Rating AG (Article 4 (3) of the CRA-Regulation).

**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, Creditreform Rating AG will disclose all ancillary services in the credit rating report at this point:

No ancillary services in the regulatory sense were carried out for this rating object.

**Rules on the presentation of credit ratings and rating outlooks**

<sup>1</sup> In these regulatory requirements the term "rating" is used in relation to all ratings issued by Creditreform Rating AG in connection to this report. This may concern several companies and their various issues.

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

There are no other attributes and limitations of the credit rating or rating outlook other than those displayed on the Creditreform Rating AG website. Furthermore, Creditreform Rating AG 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 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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