FitchRatings

NET4GAS, s.r.o.

The downgrade of Net4gas, s.r.o.'s Long-Term Issuer Default Rating (IDR) to 'BB-' reflects our downward revision of the company's transit-related profits in the short and medium term. This mainly stems from continuing Russian gas transit towards Ukraine and the Turkish Stream corridor, which limits the transit potential for Net4Gas and is only mitigated by our preliminary expectations of increased regulated revenues. The senior unsecured rating has also been downgraded to 'BB-' with a Recovery Rating of 'RR4'.

The Evolving Outlook on the IDR reflects that rating evolution would depend on the above developments, especially on the regulatory part, compared with our central expectations, while liquidity remains adequate for 2023-2024.

Key Rating Drivers

Expected Reduction of Alternative Flows: We have revised down our expectations of non-Russian gas transited through Net4gas's pipelines to 18 billion-19 billion cubic metres (bcm), including the needs of national demand, from 33bcm forecast in October 2022. This is in light of continuing Russian gas transit through Ukraine and Turkish Stream routes and gas export to Germany from France and Belgium, which directly reduce the gas transit routed through the Czech gas network.

Regulatory Upside: Net4gas's discussion with the Czech regulator to "account for the unprecedented change in the transit flows through the Czech gas transmission system" presents upside opportunities that are difficult to quantify. We see potential for a significant increase of Net4gas's regulatory asset base (RAB) and understand that legal grounds for such an increase exist.

However, there is uncertainty about the estimates of the portion of existing infrastructure that would ultimately be included in the RAB. As such, we conservatively factor in only a limited increase in revenue, which is also compatible with our depressed medium-term view of west-to-east alternative flows.

Lower, but Increasingly Regulated EBITDA: Our new projections indicate materially lower EBITDA over 2024-2026 on average, at slightly more than CZK3 billion, versus the CZK5.5 billion in our October 2022 estimates. However, our current assumptions imply the share of regulated EBITDA at around 70% (historically 20%-25%), due to the potential increase of regulated revenues and relatively depressed transit estimates.

Leverage Peak in 2023: We forecast 2023 EBITDA at slightly more than CZK2.2 billion, due to limited transit activity, and free cash flow (FCF) to be potentially eroded by large tax advances to be only reversed in 2024 (treated below FFO). This will lead to double-digit funds from operations (FFO) net leverage in 2023, before it stabilises at around 8.5x in the following three years, mainly on EBITDA normalisation and positive annual pre-dividend FCF estimated at more than CZK1.3 billion.

Upside and Downside to Forecasts: The key downside to our forecasts is represented by only small positive regulatory developments (potentially in the form of a RAB increase), which would impair debt capacity at the current rating and require material equity injections to preserve the rating. However, higher-than-expected recognition of regulated assets and revenues could sustain a higher rating assessment and potential notching up from the IDR for the senior unsecured rating instruments.

Corporates
Utilities - Non US
Czech Republic

Ratings

Foreign Currency

Long-Term IDR	BB-

Outlook

Long-Term Foreign-Currency IDR	Evolving

Debt Rating

Senior Unsecured Debt - Long-Term Rating	BB-

2035 Climate Vulnerability Signal: 45

Click here for the full list of ratings

Applicable Criteria

Country-Specific Treatment of Recovery Ratings Criteria (March 2023)

Corporate Rating Criteria (October 2022)

Corporates Recovery Ratings and Instrument Ratings Criteria (April 2021)

Related Research

Global Corporates Macro and Sector Forecasts

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A further reduction or even the cessation of Russian gas flow through the Ukrainian and Turkish Stream corridors should benefit Net4gas's gas transit flow, all else being equal. Net4gas may also be entitled to some form of compensation from the filed arbitrations proceedings towards Gazprom, but given the large uncertainty, any development in this respect would represent an upside to our forecast.

Solid Regulatory Framework: Gas transmission in the Czech Republic is fully regulated within a transparent and supportive framework and is in its fifth regulatory period until end-2025. Net4gas's regulatory framework shields the company from any reduction in intra-state transmitted volumes arising from warmer temperatures or a lack of supply, through regulatory compensation is with a two-year time lag.

Furthermore, in the case of a state emergency, transmission system operators (TSOs) are allowed to ask for compensation in the same year directly from the state budget for any intra-state capacity fees lost. This would also smooth cash flow volatility arising from the risk of gas supply curtailments to Czech industrial sectors.

Financial Summary

(CZKm)	2020	2021	2022	2023F	2024F	2025F
EBITDA	8,801	8,813	11,266	2,278	3,059	3,143
Funds flow from operations	7,007	7,378	8,860	1,155	2,066	2,191
Free cash flow	-4,402	-394	5,332	—	—	—
FFO interest coverage	11.6	11.7	6.8	1.6	2.3	2.7
FFO net leverage	3.5	4.0	2.9	13.7	8.9	8.2

F = Forecast
Source: Fitch Ratings, Fitch Solutions

Rating Derivation Relative to Peers

eustream, a.s. (BBB/Negative; 'bbb-' Standalone Credit Profile) is Net4gas's closest rated peer, as both companies own and operate gas transit pipelines in Slovakia and the Czech Republic, respectively. eustream's gas transit displays more resilience as one of the few routes still being used by Russia to Europe (even if at much depressed levels), with regular payments as of now. In addition, the Standalone Credit Profile differential is explained by the historically low leverage of the Slovakian company (net debt/EBITDA below 2.5x). Positively, Net4gas benefits from a higher share of domestic business with more supportive regulation. For both companies, liquidity is adequate, having implemented a zero dividend policy.

Net4gas is in a weaker competitive position than fully regulated national TSO peers, such as Snam S.p.A. (BBB+/Stable), REN - Redes Energeticas Nacionais, SGPS, S.A. (BBB/Stable) and pure gas distributor, Czech Gas Networks Investments S.a r.l (BBB/Stable). The latter shares the same country, regulator and a supportive fifth regulatory period as Net4gas, but its almost fully regulated earnings allow for a higher debt capacity than ship-or-pay contracts, especially if the latter are short term.

Navigator Peer Comparison

	IDR/Outlook	Operating Environment	Management and Corporate Governance	Sector Positioning	Regulatory Environment	Asset Base	Operational Profile	Profitability and Cash Flow	Financial Structure	Financial Flexibility
NET4GAS, s.r.o.	BB-/Evolving	bb+	a-	bbb	bbb+	bbb	bb	bbb-	b+	bbb-
eustream, a.s.	BBB/Negative	bb+	bbb+	bbb+	bbb	a	b	bbb	a	bbb
REN	BBB/Stable	a+	a-	a	bbb+	bbb+	a-	bbb	bb+	a
Snam S.p.A.	BBB+/Stable	a-	a	a	a-	bbb+	a	bbb+	bbb	a-
SNTGN TRANSGAZ SA	BBB-/Stable	bbb-	bbb	bbb	bbb-	bbb	bbb	bb+	bbb+	bbb-

Source: Fitch Ratings. Relative Importance of Factor: Higher; Moderate; Lower

Name	IDR/Outlook	Operating Environment	Management and Corporate Governance	Sector Positioning	Regulatory Environment	Asset Base	Operational Profile	Profitability and Cash Flow	Financial Structure	Financial Flexibility
NET4GAS, s.r.o.	BB-/Evolving	+2	+6	+4	+5	+4	+1	+3	-1	+3
eustream, a.s.	BBB/Negative	-2	+1	+1	0	+3	-6	0	+3	0
REN	BBB/Stable	+4	+2	+3	+1	+1	+2	0	-2	+3
Snam S.p.A.	BBB+/Stable	+1	+2	+2	+1	0	+2	0	-1	+1
SNTGN TRANSGAZ SA	BBB-/Stable	0	+1	+1	0	+1	+1	-1	+2	0

Source: Fitch Ratings. Factor Score Relative to IDR: Worse positioned than IDR; Within one notch of IDR; Better positioned than IDR

Rating Sensitivities

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade:

- Evidence of materially improved international gas transit prospects or materially better positive regulatory developments than expected
- FFO net leverage below 7.7x, with a business mix comprising about 70% of EBITDA from regulated activities

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade:

- No materially positive regulatory updates for the domestic gas transport business amid continuously weak alternative gas transit and absent significant shareholder support
- FFO net leverage above 8.5x, with a business mix comprising about 70% of EBITDA from regulated activities
- Reinstatement of dividend distribution

Liquidity and Debt Structure

Adequate Liquidity: Cash on balance sheet was around CZK6.8 billion at end-2022, which is sufficient to cover 2023 and 2024 operating expenses (of about CZK1.2 billion a year), financial charges (about CZK1.5 billion a year) and expected capex (cumulatively about CZK2.1 billion), even with the sole support of the current TSO business (about CZK2.2 billion in revenues a year). We expect the first significant debt maturity only from mid-2025 at almost CZK10 billion.

ESG Considerations

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

Climate Vulnerability Considerations

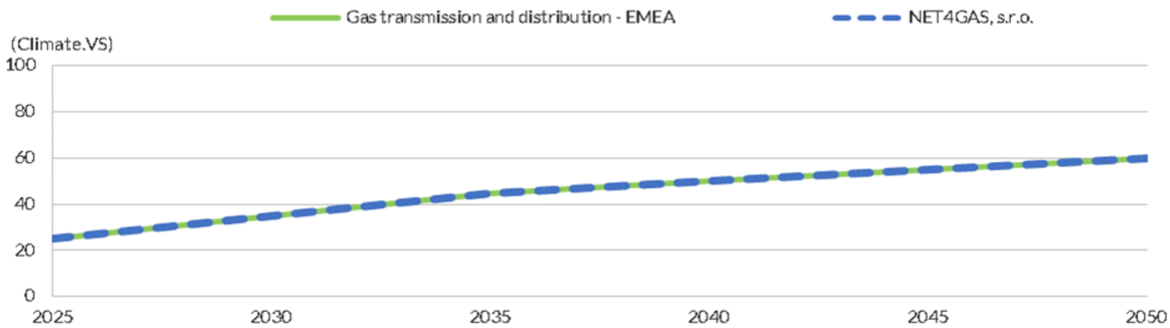
Fitch Ratings has published a Criteria Exposure Draft describing its approach to assessing Climate Vulnerability for Corporates. In this report, we describe our proposal to use Climate Vulnerability Signals (Climate.VS) as a screening tool to identify sectors and Fitch-rated issuers that are potentially most exposed to credit-relevant climate transition risks and, therefore, require additional consideration of these risks in rating reviews. Click here for the Criteria Exposure Draft.

The FY22 revenue-weighted Climate Vulnerability Signal (Climate. VS) for 2035 is 45 out of 100, which is our sector score for gas transmission and distribution companies. For further information on how Fitch perceives climate-related risks in the Utilities sector see Utilities – Long Term Climate Vulnerability Signals.

Key transition risks for the gas transmission and distribution sector arise from potential reduction in demand for natural gas in the long term, which could gradually increase regulatory uncertainty and force companies to invest in the redeployment of the infrastructure to service demand for green hydrogen or green gases (biomethane), although we believe such a transformation would entail high costs and execution risk.

These risks are mitigated by the supportive regulatory framework in Czech Republic, which underpins the visibility of Net4gas's regulated revenues. We see a higher risk in the commercial gas transit business, which is more exposed to the evolution of gas supply and demand dynamics in Europe.

Climate.VS Evolution
As of Dec. 31, 2022



Source: Fitch Ratings

Liquidity and Debt Maturities

(CZKm)	2023F	2024F	2025F	2026F
Available liquidity				
Beginning cash balance	6,812	4,120	7,912	-615
Rating case FCF after acquisitions and divestitures	-2,692	3,792	1,313	1,483
Total available liquidity (A)	4,120	7,912	9,225	868
Liquidity uses				
Debt maturities	0	0	-9,840	-5,119
Total liquidity uses (B)	**0**	**0**	**-9,840**	**-5,119**
Liquidity calculation				
Ending cash balance (A+B)	4,120	7,912	-615	-4,251
Revolver availability	0	0	0	0
Ending liquidity	**4,120**	**7,912**	**-615**	**-4,251**
Liquidity score (x)	Not meaningful	Not meaningful	0.9	0.2

F – Forecast
Source: Fitch Ratings, Fitch Solutions, NET4GAS, s.r.o.

Scheduled debt maturities

(CZKm)	31 December 2022
2023	0
2024	0
2025	9,840
2026	5,119
2027	0
Thereafter	18,723
Total[a]	**33,682**

[a] excluding EUR 1.4 billion of cross currency swap liabilities
Source: Fitch Ratings, Fitch Solutions, NET4GAS, s.r.o.

Key Assumptions

- Alternative transit gas flows run on short-term bookings up to 10 bcm in the medium term (on top of domestic consumption)
- TSO revenues based on the current regulatory framework, plus upsides related to additional asset recognition into RAB from 2024
- Annual operating expenditure of CZK1.2 billion, assuming some cost rationalisation
- Potential cash tax advance payment in 2023 to fully reverse in 2024
- No working-capital absorption to 2026
- Cumulative capex of CZK3.7 billion in 2023-2026 (in a decreasing trend), assuming some spending rationalisation
- No dividend payments from 2022

Financial Data

	Historical			Forecast		
(CZKm)	**2020**	**2021**	**2022**	**2023F**	**2024F**	**2025F**
Summary income statement						
Gross revenue	10,029	10,373	12,950	3,227	4,258	4,342
Revenue growth (%)	24.5	3.4	24.8	-75.1	31.9	2.0
EBITDA (before income from associates)	8,801	8,813	11,266	2,278	3,059	3,143
EBITDA margin (%)	87.8	85.0	87.0	70.6	71.8	72.4
EBITDAR	8,801	8,836	11,266	2,278	3,059	3,143
EBITDAR margin (%)	87.8	85.2	87.0	70.6	71.8	72.4
EBIT	6,440	6,309	8,800	-516	280	340
EBIT margin (%)	64.2	60.8	68.0	-16.0	6.6	7.8
Gross interest expense	-643	-780	-1,664	-1,420	-1,305	-1,168
Pretax income (including associate income/loss)	5,241	4,696	7,685	-1,599	-673	-536
Summary balance sheet						
Readily available cash and equivalents	2,226	1,352	6,812	4,169	8,010	4,672
Debt	29,232	33,782	35,014	35,014	35,014	30,314
Lease-adjusted debt	29,232	33,782	35,014	35,014	35,014	30,314
Net debt	27,006	32,430	28,202	30,845	27,004	25,642
Summary cash flow statement						
EBITDA	8,801	8,813	11,266	2,278	3,059	3,143
Cash interest paid	-659	-686	-1,450	-1,420	-1,305	-1,168
Cash tax	-1,056	-806	-1,454	0	0	0
Dividends received less dividends paid to minorities (inflow/(out)flow)	—	—	—	0	0	0
Other items before FFO	-87	46	68	-25	-25	-25
Funds flow from operations	7,007	7,378	8,860	1,155	2,066	2,191
FFO margin (%)	69.9	71.1	68.4	35.8	48.5	50.5
Change in working capital	-11	-1,119	272	0	0	0
Cash flow from operations (Fitch defined)	6,996	6,259	9,132	1,155	2,066	2,191
Total non-operating/nonrecurring cash flow	—	—	—	—	—	—
Capex	-6,563	-2,669	-3,800	—	—	—
Capital intensity (capex/revenue) (%)	65.4	25.7	29.3	—	—	—
Common dividends	-4,835	-3,984	—	—	—	—
Free cash flow	-4,402	-394	5,332	—	—	—
Net acquisitions and divestitures	24	1	—	—	—	—
Other investing and financing cash flow items	42	44	31	—	—	—
Net debt proceeds	-1	6,325	97	0	0	-4,700
Net equity proceeds	4,401	-6,850	—	0	0	0
Total change in cash	64	-874	5,460	-2,643	3,841	-3,338
Leverage ratios (x)						
EBITDA leverage	3.3	3.8	3.1	15.4	11.4	9.6
EBITDA net leverage	3.1	3.7	2.5	13.5	8.8	8.2
EBITDAR leverage	3.3	3.8	3.1	15.4	11.4	9.6
EBITDAR net leverage	3.1	3.7	2.5	13.5	8.8	8.2
EBITDAR net fixed charge coverage	13.5	12.7	11.0	2.1	3.2	3.4
FFO adjusted leverage	3.8	4.2	3.5	15.5	11.5	9.7
FFO adjusted net leverage	3.5	4.0	2.9	13.7	8.9	8.2
FFO leverage	3.8	4.2	3.5	15.5	11.5	9.7
FFO net leverage	3.5	4.0	2.9	13.7	8.9	8.2
Calculations for forecast publication						
Capex, dividends, acquisitions and other items before FCF	-11,374	-6,652	-3,800	-3,847	1,726	-878
Free cash flow after acquisitions and divestitures	-4,378	-393	5,332	-2,692	3,792	1,313
Free cash flow margin (after net acquisitions) (%)	-43.7	-3.8	41.2	-83.4	89.1	30.2

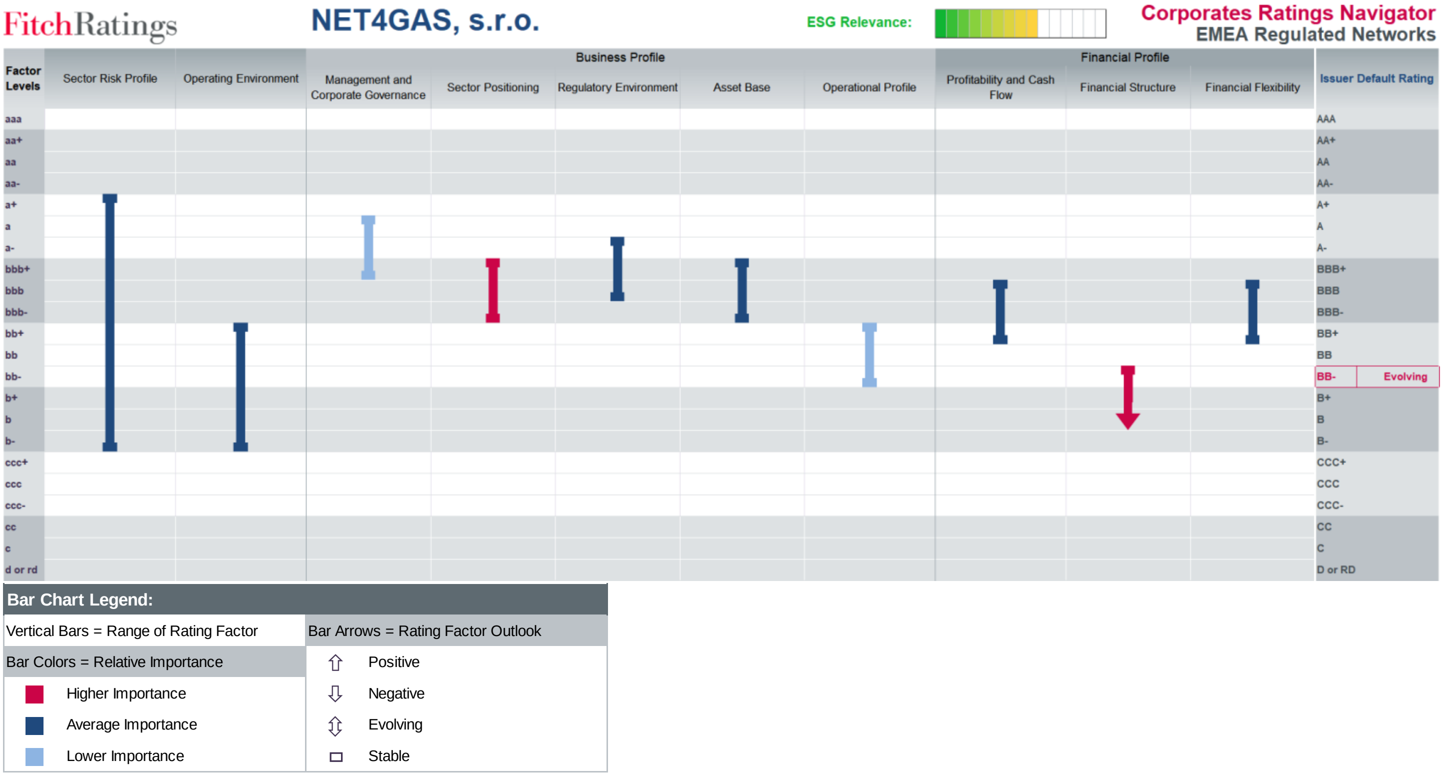
	Historical			Forecast		
(CZKm)	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**
Coverage ratios (x)						
FFO interest coverage	11.6	11.7	6.8	1.6	2.3	2.7
FFO fixed charge coverage	11.6	11.4	6.8	1.6	2.3	2.7
EBITDAR fixed charge coverage	13.4	12.5	7.8	1.6	2.3	2.7
EBITDA interest coverage	13.4	12.8	7.8	1.6	2.3	2.7
Additional metrics (%)						
CFO-capex/debt	1.5	10.6	15.2	-0.5	3.7	4.3
CFO-capex/net debt	1.6	11.1	18.9	-0.6	4.8	5.1
CFO/capex	106.6	234.5	240.3	85.7	266.9	249.5

Source: Fitch Ratings, Fitch Solutions, NET4GAS, s.r.o.

How to Interpret the Forecast Presented

The forecast presented above is based on Fitch Ratings' internally produced, conservative rating case forecast. It does not represent the forecast of the rated issuer. The forecast set out above is only one component used by Fitch Ratings to assign a rating or determine a rating outlook, and the information in the forecast reflects material but not exhaustive elements of Fitch Ratings' rating assumptions for the issuer's financial performance. As such, it cannot be used to establish a rating, and it should not be relied on for that purpose. Fitch Ratings' forecasts are constructed using a proprietary internal forecasting tool, which employs Fitch Ratings' own assumptions on operating and financial performance that may not reflect the assumptions that you would make. Fitch Ratings' own definitions of financial terms such as EBITDA, debt or free cash flow may differ from your own such definitions. Fitch Ratings may be granted access, from time to time, to confidential information on certain elements of the issuer's forward planning. Certain elements of such information may be omitted from this forecast, even where they are included in Fitch Ratings' own internal deliberations, where Fitch Ratings, at its sole discretion, considers the data may be potentially sensitive in a commercial, legal or regulatory context. The forecast (as with the entirety of this report) is produced strictly subject to the disclaimers set out at the end of this report. Fitch Ratings may update the forecast in future reports but assumes no responsibility to do so. Original financial statement data for historical periods is processed by Fitch Solutions on behalf of Fitch Ratings. Key financial adjustments and all financial forecasts credited to Fitch Ratings are generated by rating agency staff.

Ratings Navigator



FitchRatings

NET4GAS, s.r.o.

Corporates Ratings Navigator
EMEA Regulated Networks

Operating Environment

bbb-	Economic Environment	b	Weak combination of countries where economic value is created and where assets are located.
bb+	Financial Access	bbb	Average combination of issuer-specific funding characteristics and the strength of the relevant local financial market.
	Systemic Governance	aa	Systemic governance (eg rule of law, corruption, government effectiveness) of the issuer's country of incorporation consistent with 'aa'.
b-			
ccc+			

Management and Corporate Governance

a+	Management Strategy	a	Coherent strategy and good track record in implementation.
a	Governance Structure	a	Experienced board exercising effective checks and balances. Ownership can be concentrated among several shareholders.
a-	Group Structure	a	Group structure has some complexity but mitigated by transparent reporting.
bbb+	Financial Transparency	bbb	Good-quality reporting without significant failings. Consistent with the average of listed companies in major exchanges.
bbb			

Sector Positioning

a-	Operation Type	a	National or regional monopolies, transmission or distribution asset owners.
bbb+	Non-Regulated Earnings (% of Total Earnings)	b	up to 25%
bbb			
bbb-			
bb+			

Regulatory Environment

a	Independence, Transparency, Predictability	bbb	Less transparent frameworks, with emerging track record and multi-year tariffs; exposed to political risk. Medium-term predictability.
a-	Licensing, Ring-Fencing, Concessioning	bbb	Less demanding licensing and ring-fencing provisions; moderate concession renewal risk.
bbb+	Cost and Investment Recovery	bbb	Tariff setting with challenge mechanisms that may limit efficiently incurred cost and investment recovery, with moderate regulatory lag.
bbb	Volume and Price Risk	a	High insulation from price and volume risk, little revenue under-recovery.
bbb-			

Asset Base

a-	Diversification	bbb	Limited diversification by geography without regulatory diversification; regional utility.
bbb+	Critical Mass	a	Critical mass in one regulated asset; does not affect efficiency of operations (cost base, customer base, key personnel).
bbb	Asset Quality and Residual Life	bbb	Mid-range asset quality not affecting opex and capex requirements compared with peers. The residual life of regulatory assets is average.
bbb-			
bb+			

Operational Profile

bbb-	Performance Measures	a	Key performance measures in line with or above sector average and/or regulatory target.
bb+	Counterparty Risk	bb	High counterparty risk; water suppliers with high doubtful debt levels. Structurally challenged economy in area served.
bb			
bb-			
b+			

Profitability and Cash Flow

bbb+	Return on Capital	bb	Return on capital below the regulatory benchmark.
bbb	Volatility of Profitability	bb	Less stability and predictability of profit than utility peers.
bbb-	Investment Cycle	a	Investment cycle position and dividend policy leading to broadly neutral free cash flow. High flexibility in smoothing capex plans.
bb+			
bb			

Financial Structure

bb	FFO Leverage	b	8.0x
bb-	FFO Net Leverage	b	7.5x
b+	Adjusted Net Debt/Asset Base (or Regulated Asset Base)	b	90%
b	Cash PMICR		n.a.
b-	Nominal PMICR		n.a.

Financial Flexibility

bbb+	Financial Discipline	bbb	Financial policies less conservative than peers but generally applied consistently.
bbb	Liquidity	bbb	One-year liquidity ratio above 1.25x. Well spread debt maturity schedule but funding may be less diversified.
bbb-	FFO Interest Coverage	bbb	3.5x
bb+	FX Exposure	bbb	Some FX exposure on profitability and/or debt/cash flow match. Effective hedging.
bb	Dividend Cover		n.a.

How to Read This Page: The left column shows the three-notch band assessment for the overall Factor, illustrated by a bar. The right column breaks down the Factor into Sub-Factors, with a description appropriate for each Sub-Factor and its corresponding category.

Credit-Relevant ESG Derivation

NET4GAS, s.r.o. has 9 ESG potential rating drivers

- Exposure to extreme weather events - negative (e.g. risk of drought and flooding) or positive (e.g. additional return on capex for network weather-resilience)
- Product affordability and access
- Quality and safety of products and services; data security
- Impact of labor negotiations and employee (dis)satisfaction
- Social resistance to major projects that leads to delays and cost increases
- Governance is minimally relevant to the rating and is not currently a driver.

			Overall ESG
key driver	0	issues	5
driver	0	issues	4
potential driver	9	issues	3
not a rating driver	3	issues	2
	2	issues	1

For further details on Credit-Relevant ESG scoring, see page 3.

FitchRatings **NET4GAS, s.r.o.** **Corporates Ratings Navigator** EMEA Regulated Networks

Credit-Relevant ESG Derivation

NET4GAS, s.r.o. has 9 ESG potential rating drivers

- NET4GAS, s.r.o. has exposure to extreme weather events but this has very low impact on the rating.
- NET4GAS, s.r.o. has exposure to access/affordability risk but this has very low impact on the rating.
- NET4GAS, s.r.o. has exposure to customer accountability risk but this has very low impact on the rating.
- NET4GAS, s.r.o. has exposure to labor relations & practices risk but this has very low impact on the rating.
- NET4GAS, s.r.o. has exposure to social resistance but this has very low impact on the rating.
- Governance is minimally relevant to the rating and is not currently a driver.

			ESG Relevance to Credit Rating
key driver	0	issues	5
driver	0	issues	4
potential driver	9	issues	3
not a rating driver	3	issues	2
	2	issues	1

Environmental (E) Relevance Scores

General Issues	E Score	Sector-Specific Issues	Reference	E Relevance
GHG Emissions & Air Quality	1	Emissions from operations	Profitability and Cash Flow	5
Energy Management	2	Energy and fuel use in operations; entities' financial targets for losses/shrinkage	Profitability and Cash Flow	4
Water & Wastewater Management	1	Water usage in operations; water utilities' financial targets for water quality, leakage and usage	Operations; Profitability and Cash Flow; Financial Structure; Financial Flexibility	3
Waste & Hazardous Materials Management; Ecological Impacts	2	Impact of waste including pollution incidents; discharge compliance; sludge disposal	Operations; Profitability and Cash Flow; Financial Flexibility	2
Exposure to Environmental Impacts	3	Exposure to extreme weather events - negative (e.g. risk of drought and flooding) or positive (e.g. additional return on capex for network weather-resilience)	Operations; Profitability and Cash Flow; Financial Flexibility	1

Social (S) Relevance Scores

General Issues	S Score	Sector-Specific Issues	Reference	S Relevance
Human Rights, Community Relations, Access & Affordability	3	Product affordability and access	Profitability and Cash Flow; Regulatory Environment	5
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Quality and safety of products and services; data security	Profitability and Cash Flow	4
Labor Relations & Practices	3	Impact of labor negotiations and employee (dis)satisfaction	Profitability and Cash Flow; Financial Structure; Financial Flexibility	3
Employee Wellbeing	2	Worker safety and accident prevention	Financial Structure; Financial Flexibility	2
Exposure to Social Impacts	3	Social resistance to major projects that leads to delays and cost increases	Operations; Profitability and Cash Flow	1

Governance (G) Relevance Scores

General Issues	G Score	Sector-Specific Issues	Reference	G Relevance
Management Strategy	3	Strategy development and implementation	Management and Corporate Governance	5
Governance Structure	3	Board independence and effectiveness; ownership concentration	Management and Corporate Governance	4
Group Structure	3	Complexity, transparency and related-party transactions	Management and Corporate Governance	3
Financial Transparency	3	Quality and timing of financial disclosure	Management and Corporate Governance	2
				1

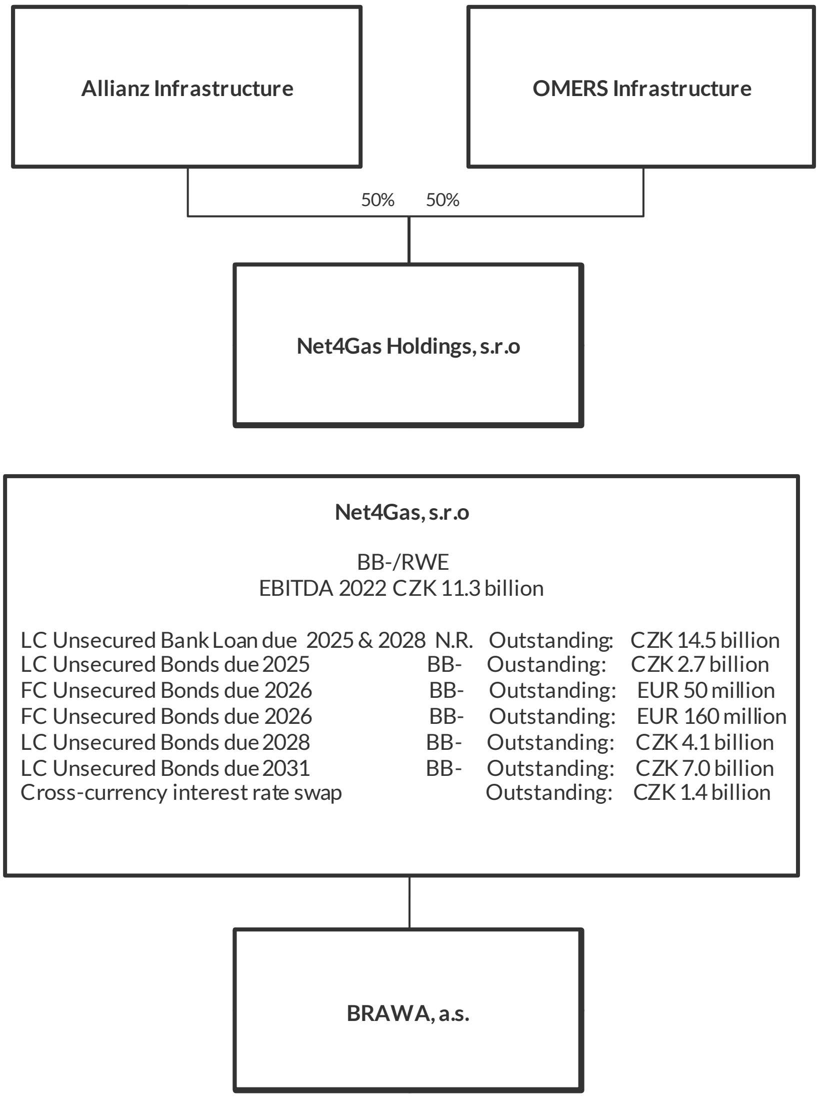
How to Read This Page
ESG relevance scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant to the credit rating and green (1) is least relevant.
The Environmental (E), Social (S) and Governance (G) tables break out the ESG general issues and the sector-specific issues that are most relevant to each industry group. Relevance scores are assigned to each sector-specific issue, signaling the credit-relevance of the sector-specific issues to the issuer's overall credit rating. The Criteria Reference column highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis. The vertical color bars are visualizations of the frequency of occurrence of the highest constituent relevance scores. They do not represent an aggregate of the relevance scores or aggregate ESG credit relevance.
The Credit-Relevant ESG Derivation table's far right column is a visualization of the frequency of occurrence of the highest ESG relevance scores across the combined E, S and G categories. The three columns to the left of ESG Relevance to Credit Rating summarize rating relevance and impact to credit from ESG issues. The box on the far left identifies any ESG Relevance Sub-factor issues that are drivers or potential drivers of the issuer's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the relevance score. All scores of '4' and '5' are assumed to result in a negative impact unless indicated with a '+' sign for positive impact.
Classification of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Principles for Responsible Investing (PRI), the Sustainability Accounting Standards Board (SASB), and the World Bank.

CREDIT-RELEVANT ESG SCALE

How relevant are E, S and G issues to the overall credit rating?

5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
2	Irrelevant to the entity rating but relevant to the sector.
1	Irrelevant to the entity rating and irrelevant to the sector.

Simplified Group Structure Diagram



Source: Fitch Ratings, Fitch Solutions, NET4GAS, s.r.o.. as at end-2022

Peer Financial Summary

Company	Issuer Default Rating	Financial statement date	EBITDA (EURm)	Funds from operations (EURm)	Free cash flow (EURm)	FFO interest coverage (x)	FFO net leverage (x)
NET4GAS, s.r.o.	BB-						
	BB+	2022	467	367	221	6.8	2.9
	BBB	2021	351	294	-16	11.7	4.0
	BBB	2020	334	266	-167	11.6	3.5
eustream, a.s.	BBB						
	BBB	2022	478	343	173	11.7	2.4
	A-	2021	547	350	20	11.9	2.7
	A-	2020	677	481	184	11.7	2.1
SNTGN TRANSGAZ SA	BBB-						
	BBB-	2021	97	88	-58	19.9	3.5
	BBB-	2020	86	74	-230	18.8	3.8
	BBB-	2019	112	124	-163	135.2	0.5
EP Infrastructure, a.s.	BBB-						
	BBB-	2021	1,265	1,084	458	10.1	3.0
	BBB-	2020	1,453	1,090	-202	9.4	3.1
	BBB-	2019	1,642	1,308	485	11.4	3.0
Snam S.p.A.	BBB+						
	BBB+	2022	2,187	1,698	2,314	14.8	6.2
	BBB+	2021	2,237	1,909	-391	17.4	6.9
	BBB+	2020	2,158	1,828	-354	12.7	6.6
Czech Gas Networks Investments S.a r.l	BBB						
	BBB	2021	408	329	-520	9.1	5.9
	BBB	2020	339	267	5	7.2	5.2
REN - Redes Energeticas Nacionais, SGPS, S.A.	BBB						
	BBB	2021	454	320	410	9.0	6.6
	BBB	2020	463	368	89	7.8	6.6
	BBB	2019	477	348	-3	6.8	6.9

Source: Fitch Ratings, Fitch Solutions, Net4Gas, s.r.o.

Fitch Adjusted Financials

(CZKm) 31 December 2022	Reported values	Sum of adjustments	Lease treatment	Other adjustments	Adjusted values
Income statement summary					
Revenue	12,950				12,950
EBITDAR	11,367	-101	-39	-62	11,266
EBITDAR after associates and minorities	11,367	-101	-39	-62	11,266
Lease expense	0				0
EBITDA	11,367	-101	-39	-62	11,266
EBITDA after associates and minorities	11,367	-101	-39	-62	11,266
EBIT	8,870	-70	-8	-62	8,800
Debt and cash summary					
Other off-balance-sheet debt	0				0
Debt[b]	34,006	1,008	-264	1,272	35,014
Lease-equivalent debt	0				0
Lease-adjusted debt	34,006	1,008	-264	1,272	35,014
Readily available cash and equivalents	949	5,863		5,863	6,812
Not readily available cash and equivalents	0				0
Cash flow summary					
EBITDA after associates and minorities	11,367	-101	-39	-62	11,266
Preferred dividends (paid)	0				0
Interest received	430				430
Interest (paid)	-1,450				-1,450
Cash tax (paid)	-1,454				-1,454
Other items before FFO	-2	70	8	62	68
Funds from operations (FFO)	8,891	-31	-31		8,860
Change in working capital (Fitch-defined)	272				272
Cash flow from operations (CFO)	9,163	-31	-31		9,132
Non-operating/nonrecurring cash flow	0				0
Capital (expenditures)	-3,800				-3,800
Common dividends (paid)	0				0
Free cash flow (FCF)	5,363	-31	-31		5,332
Gross leverage (x)					
EBITDAR leverage[a]	3.0				3.1
FFO adjusted leverage	3.4				3.5
FFO leverage	3.4				3.5
EBITDA leverage[a]	3.0				3.1
(CFO-capex)/debt (%)	15.8%				15.2%
Net leverage (x)					
EBITDAR net leverage[a]	2.9				2.5
FFO adjusted net leverage	3.3				2.9
FFO net leverage	3.3				2.9
EBITDA net leverage[a]	2.9				2.5
(Cfo-capex)/net debt (%)	16.2%				18.9%
Coverage (x)					
EBITDAR fixed charge coverage[a]	7.8				7.8
EBITDA interest coverage[a]	7.8				7.8
FFO fixed-charge coverage	6.8				6.8
FFO interest coverage	6.8				6.8

[a] EBITDA/R after dividends to associates and minorities.
[b] Includes Other Off Balance Sheet Debt.
Source: Fitch Ratings, Fitch Solutions, NET4GAS, s.r.o.

For information on the solicitation status of the ratings included within this report, please refer to the solicitation status shown in the relevant entity's summary page of the Fitch Ratings website.

For information on the participation status in the rating process of an issuer listed in this report, please refer to the most recent rating action commentary for the relevant issuer, available on the Fitch Ratings website.