

# Net4gas, s.r.o.

The affirmation of Net4gas, s.r.o.'s Long-Term Issuer Default Rating (IDR) and senior unsecured rating at 'BB+' and removal from Rating Watch Negative now incorporates Fitch's base scenario of full or near-complete shut-off of Russian pipeline gas to Europe and no payments from Gazprom. The analysis acknowledges Net4gas's capacity to carry alternative flows, and to receive capacity bookings to service demand nationally and from neighbouring eastern European countries, as well as for the north-to-south German transit.

The company maintains strong liquidity and the Negative Outlook reflects uncertainties related to the magnitude of alternative transits, related profits and the shareholders' commitment to a lower leverage.

## Key Rating Drivers

**Long-Term Contracts at High Risk:** We see a material risk of the long-term ship-or-pay transit contracts between Net4gas and Gazprom not being fulfilled, due to the continuous escalation of sanctions and no Russian gas transit through the pipeline at present. Gazprom's payments account for a majority of Net4gas's revenue.

**Cashflow From Alternative Flows:** While we acknowledge that Gazprom's ability to pay has not been hampered by sanctions and it is honouring the contract with Net4gas at present, we now assess the latter's credit risk under a scenario of alternative flows, given the extremely high risk of non-payment by Gazprom in the future. We acknowledge that Net4gas may be entitled to some form of compensation, but any additional monthly payment, Russian gas transit or financial compensation would represent an upside improvement to our forecast.

**Structurally Lower EBITDA:** Our new projections see slightly below 33 billion cubic meters (bcm) of non-Russian gas transited through Net4gas' pipelines to meet demand nationally, from German intra-country and from neighbouring central and eastern European countries. Such transits are likely to be based on short-term capacity bookings, leading to our estimates of 30%-35% lower transit EBITDA compared with our pre-Ukraine war estimates. Overall, we expect an average EBITDA of CZK5.5 billion over 2024-2026.

**Risks and Upside to Forecasts:** The key uncertainties over the assumed alternative transits include the large Hungarian imports directly through the Turkish Stream route, the infrastructural bottleneck between north and south Germany as well as the level of imports from Ukraine. New long-term contracts would represent an upside to visibility and the business profile.

**FCF Mitigates Leverage Rise:** Under our assumptions of payments only related to alternative flows from 4Q22 onwards, we expect funds from operations (FFO) net leverage to increase sharply in 2023 to 7.0x. However, we expect Net4gas to generate pre-dividend free cash flow (FCF) of more than CZK3.2 billion in 2022, and cumulative FCF of CZK6.9 billion in 2023-2025, leaving the group with enough levers to progressively deleverage to within our updated sensitivities barring substantial shareholder distributions.

We forecast 4.5x FFO net leverage at end-2025. No medium-term leverage commitment has been expressed so far by Net4gas, while dividends are temporarily suspended "until the risk of an external shock materialising has significantly reduced".

**Solid Regulatory Framework:** Net4gas's business profile benefits from its role as national transmission system operator (TSO), which would account for around 30% of its operating cash flow generation in our updated estimates. Gas transmission is fully regulated within a

## Ratings

Rating Type	Rating	Outlook	Last Rating Action
Long-Term IDR	BB+	Negative	Affirmed 19 Oct 2022

[Click here for full list of ratings](#)

## Applicable Criteria

[Corporate Rating Criteria \(October 2022\)](#)  
[Corporates Recovery Ratings and Instrument Ratings Criteria \(April 2021\)](#)  
[Country-Specific Treatment of Recovery Ratings Criteria \(January 2021\)](#)

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transparent and supportive framework and in their fifth regulatory period (RP5), which provides cash flow visibility up to 2025.

**Protection Against Volume Risk:** Net4gas's regulatory framework shields it from any reduction in intra-state transmitted volumes due to warmer temperatures or a lack of supply, through regulatory compensation with a two-year time lag. Further, in case of a state of emergency, amendments to the Czech Energy Act would allow TSOs to ask for compensation in the same year from the state budget for any intra-state capacity fees lost. Such amendments would also smooth cash flow volatility from the risk of gas supply curtailments to Czech industrial sectors.

**Investment-Grade Debt Capacity:** Under Fitch assumptions, Net4gas's international transit activities would almost exclusively stem from annual or monthly "ship-or-pay" bookings, compared with the current large long-term agreements with Gazprom. Under these circumstances, the maximum FFO net leverage for an investment-grade rating would be around 4.3x, assuming a good credit quality of alternative shippers and the benefits of the solid features of the TSO business.

## Financial Summary

### Net4gas, s.r.o.

(CZKm)	Dec 20	Dec 21	Dec 22F	Dec 23F	Dec 24F	Dec 25F
Gross revenue	10,029	10,373	10,692	5,449	6,711	6,700
EBITDA	8,801	8,813	9,396	4,307	5,575	5,502
FFO margin (%)	69.9	71.1	68.2	51.9	60.3	59.7
FFO net leverage (x)	3.5	4.0	3.5	7.2	5.0	4.5
FFO interest coverage (x)	11.6	11.7	5.9	2.8	3.8	4.2

F - Forecast

Source: Fitch Ratings, Fitch Solutions, Net4gas

## Rating Derivation Relative to Peers

Net4gas's closest rated peer is eustream, a.s. (BBB/Negative; 'bbb-' Standalone Credit Profile), since both companies own and operate gas transit pipelines in the Czech Republic and Slovakia, respectively, although Net4gas benefits from a higher share of domestic business with more supportive regulation and no potential liabilities related to historical gas-in-kind hedging.

The two companies are highly dependent on the transit of gas from Russia to Europe, with concentrated counterparty risk in Gazprom while eustream's balance sheet is significantly less leveraged (around 2.0x FFO net leverage versus 4.0x historically for Net4gas).

Net4gas is in a weaker competitive position than fully regulated national TSO peers, such as Snam S.p.A. (BBB+/Stable) and 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 earnings from traditionally regulated networks allow for a higher debt capacity than ship-or-pay contracts, especially if the latter are short-term in nature.

Furthermore, under our current corporate rating methodology, ship-or-pay contracts do not intrinsically strengthen recovery prospects for senior creditors, and, therefore, do not allow Net4gas's senior unsecured debt to be notched up from the IDR, unlike that of Czech Gas Network Investment, given the dominant contribution of high-quality regulated activities.

## Navigator Peer Comparison

Issuer	Business profile										Financial profile				
IDR/Outlook	Operating Environment	Management and Corporate Governance		Sector Positioning	Regulatory Environment		Asset Base		Operational Profile		Profitability and Cash Flow		Financial Structure		Financial Flexibility
eustream, a.s.	BBB/Neg	bb+	bbb+	bbb+	bbb	a	a	b	bbb	a	bbb	a	bbb	bbb	
Net4gas, s.r.o.	BB+/Neg	bb+	a-	bbb+	bbb+	a	a	b	bbb	bb+	bbb	bb+	bbb-		
REN	BBB/Sta	a+	a-	a	bbb+	bbb+	a-	bbb	bbb	bb+	bbb	bb+	a		
Snam S.p.A.	BBB+/Sta	a-	a	a	a-	bbb+	a	bbb	bbb	bbb	bbb	bbb	a-		

Source: Fitch Ratings

Importance: Higher (Red), Moderate (Blue), Lower (Light Blue)

Issuer	Business profile										Financial profile					
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
eustream, a.s.	BBB/Neg	-2.0	1.0	1.0	1.0	0.0	3.0	-6.0	0.0	3.0	0.0	3.0	0.0			
Net4gas, s.r.o.	BB+/Neg	0.0	4.0	3.0	3.0	5.0	-4.0	2.0	0.0	0.0	0.0	1.0				
REN	BBB/Sta	4.0	2.0	3.0	1.0	1.0	2.0	0.0	2.0	0.0	-2.0	3.0				
Snam S.p.A.	BBB+/Sta	1.0	2.0	2.0	1.0	0.0	2.0	0.0	2.0	0.0	-1.0	1.0				

Source: Fitch Ratings

Legend: Red = Worse positioned than IDR, Blue = In line with IDR, Light Blue = Better positioned than IDR

## Rating Sensitivities

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

- Due to the Negative Outlook, an upgrade of Net4Gas is unlikely in the near future.
- We would revise the Outlook to Stable when visibility on gas flow and revenue from gas transit is enhanced, coupled with a structural FFO net leverage below 5.0x.

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

- FFO net leverage sustainably above 5.0x.
- Evidence of permanent loss of a large part of current transit income that is replaced by lower-than-expected alternative bookings.
- Reinstatement of dividend distribution while current gas-market uncertainties remain.

## Liquidity and Debt Structure

**Adequate Liquidity:** Net4gas's adequate liquidity is supported by the cash-generative nature of gas transport, leading to positive pre-dividend FCF generation under normal conditions. Its next debt maturities are not until 2025 (around CZK10 billion) and 2026 (around CZK5 billion). Net4gas does not have an undrawn committed credit line, but had, at end-August, accumulated around CZK6.6 billion of cash and cash equivalents.

## 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](http://www.fitchratings.com/esg)

## Liquidity and Debt Maturities

### Net4gas, s.r.o. – Liquidity Analysis

(CZKm)	2022F	2023F	2024F	2025F
<b>Available liquidity</b>				
Beginning cash balance	1,352	4,651	5,383	8,505
Rating case FCF after acquisitions and divestitures	3,299	732	3,122	3,172
<b>Total available liquidity (A)</b>	<b>4,651</b>	<b>5,383</b>	<b>8,505</b>	<b>11,677</b>
<b>Liquidity uses</b>				
Debt maturities	0	0	0	-9,717
<b>Total liquidity uses (B)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-9,717</b>
<b>Liquidity calculation</b>				
Ending cash balance (A+B)	4,651	5,383	8,505	1,960
Revolver availability	0	0	0	0
<b>Ending liquidity</b>	<b>4,651</b>	<b>5,383</b>	<b>8,505</b>	<b>1,960</b>
Liquidity score (x)	Not meaningful	Not meaningful	Not meaningful	1.2

F – Forecast  
Source: Fitch Ratings, Fitch Solutions, Net4gas

Scheduled debt maturities (CZKm)	Original 31 Dec 21
2022	0
2023	0
2024	0
2025	9,717
2026	5,274
Thereafter	18,791
<b>Total</b>	<b>33,782</b>

Source: Fitch Ratings, Fitch Solutions, Net4gas

## Key Assumptions

- Cash flows related to only alternative flows from 4Q22 onwards
- TSO revenues based on the regulatory framework for 2021-2025 (RP5), which entails a weighted average cost of capital set at 6.43%, the alignment of regulated asset base (RAB) with net asset value within RP5 and the inclusion of MCE investments in RAB in 2022
- Alternative transited gas flows run on short-term bookings up to 24bcm in the medium term (on top of domestic consumption)
- Transit operating expenditure reduced by 30%-35% from 2023 onwards, reflecting estimated potential rationalisation
- Cumulative capex of CZK 8.8billion in 2022-2026, assuming some estimated potential rationalisation
- No dividend payments from 2022 onwards and internally generated cash sufficient to fully repay 2025 and 2026 debt at maturity

## Financial Data

Net4gas, s.r.o. (CZKm)							
	Historical			Forecast			
	Dec 2019	Dec 2020	Dec 2021	Dec 2022F	Dec 2023F	Dec 2024F	Dec 2025F
<b>Summary income statement</b>							
Gross revenue	8,054	10,029	10,373	10,692	5,449	6,711	6,700
Revenue growth (%)	9.8	24.5	3.4	3.1	-49.0	23.2	-0.2
EBITDA (before income from associates)	6,979	8,801	8,813	9,396	4,307	5,575	5,502
EBITDA margin (%)	86.7	87.8	85.0	87.9	79.0	83.1	82.1
EBITDAR	7,027	8,801	8,836	9,396	4,307	5,575	5,502
EBITDAR margin (%)	87.2	87.8	85.2	87.9	79.0	83.1	82.1
EBIT	5,018	6,440	6,309	6,779	1,513	2,796	2,699
EBIT margin (%)	62.3	64.2	60.8	63.4	27.8	41.7	40.3
Gross interest expense	-709	-643	-780	-1,415	-1,420	-1,305	-1,168
Pre-tax income (including associate income/loss)	4,121	5,241	4,696	5,682	430	1,842	1,823
<b>Summary balance sheet</b>							
Readily available cash and equivalents	2,162	2,226	1,352	4,651	5,383	8,505	1,960
Debt	29,198	29,232	33,782	33,782	33,782	33,782	24,065
Lease-adjusted net debt	29,582	29,232	33,782	33,782	33,782	33,782	24,065
Net debt	27,036	27,006	32,430	29,131	28,399	25,277	22,105
<b>Summary cash flow statement</b>							
EBITDA	6,979	8,801	8,813	9,396	4,307	5,575	5,502
Cash interest paid	-762	-659	-686	-1,415	-1,420	-1,305	-1,168
Cash tax	-676	-1,056	-806	-957	-354	-534	-549
Dividends received less dividends paid to minorities (inflow/outflow)	0	0	0	0	0	0	0
Other items before funds from operations (FFO)	-7	-87	46	-25	-25	-25	-25
FFO	5,563	7,007	7,378	7,295	2,830	4,047	4,000
FFO margin (%)	69.1	69.9	71.1	68.2	51.9	60.3	59.7
Change in working capital	193	-11	-1,119	0	0	0	0
Cash flow from operations (CFO) (Fitch-defined)	5,756	6,996	6,259	7,295	2,830	4,047	4,000
Total non-operating/non-recurring cash flow	0	0	0				
Capex	-6,832	-6,563	-2,669				
Capital intensity (capex/revenue) (%)	84.8	65.4	25.7				
Common dividends	-5,751	-4,835	-3,984				
Free cash flow (FCF)	-6,827	-4,402	-394				
Net acquisitions and divestitures	95	24	1				
Other investing and financing cash flow items	2,836	42	44	49	49	49	49
Net debt proceeds	240	-1	6,325	0	0	0	-9,717
Net equity proceeds	4,516	4,401	-6,850	0	0	0	0
Total change in cash	860	64	-874	3,299	732	3,122	-6,545
<b>Leverage ratios</b>							
EBITDA net leverage (x)	3.9	3.1	3.7	3.1	6.6	4.5	4.0
EBITDAR leverage (x)	4.2	3.3	3.8	3.6	7.8	6.1	4.4
EBITDAR net leverage (x)	3.9	3.1	3.7	3.1	6.6	4.5	4.0
EBITDA leverage (x)	4.2	3.3	3.8	3.6	7.8	6.1	4.4
FFO adjusted leverage (x)	4.7	3.8	4.2	4.0	8.6	6.7	4.9
FFO adjusted net leverage (x)	4.3	3.5	4.0	3.5	7.2	5.0	4.5
FFO leverage (x)	4.6	3.8	4.2	4.0	8.6	6.7	4.9
FFO net leverage (x)	4.3	3.5	4.0	3.5	7.2	5.0	4.5
<b>Calculations for forecast publication</b>							
Capex, dividends, acquisitions and other items before FCF	-12,488	-11,374	-6,652	-4,045	-2,147	-974	-878
FCF after acquisitions and divestitures	-6,732	-4,378	-393	3,250	683	3,073	3,123
FCF margin (after net acquisitions) (%)	-83.6	-43.7	-3.8	30.4	12.5	45.8	46.6
<b>Coverage Ratios</b>							
FFO Interest Coverage (x)	8.3	11.6	11.7	5.9	2.8	3.8	4.2
FFO fixed-charge Coverage (x)	7.8	11.6	11.4	5.9	2.8	3.8	4.2
EBITDAR fixed-charge coverage (x)	8.7	13.4	12.5	6.6	3.0	4.3	4.7
EBITDA interest coverage (x)	9.2	13.4	12.8	6.6	3.0	4.3	4.7
<b>Additional metrics</b>							
CFO-capex/debt (%)	-3.7	1.5	10.6	9.6	2.0	9.1	13.0
CFO-capex/net debt (%)	-4.0	1.6	11.1	11.2	2.4	12.2	14.1

Source: Fitch Ratings, Fitch Solutions, Net4gas

### How to Interpret the Forecast Presented

The forecast presented 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.

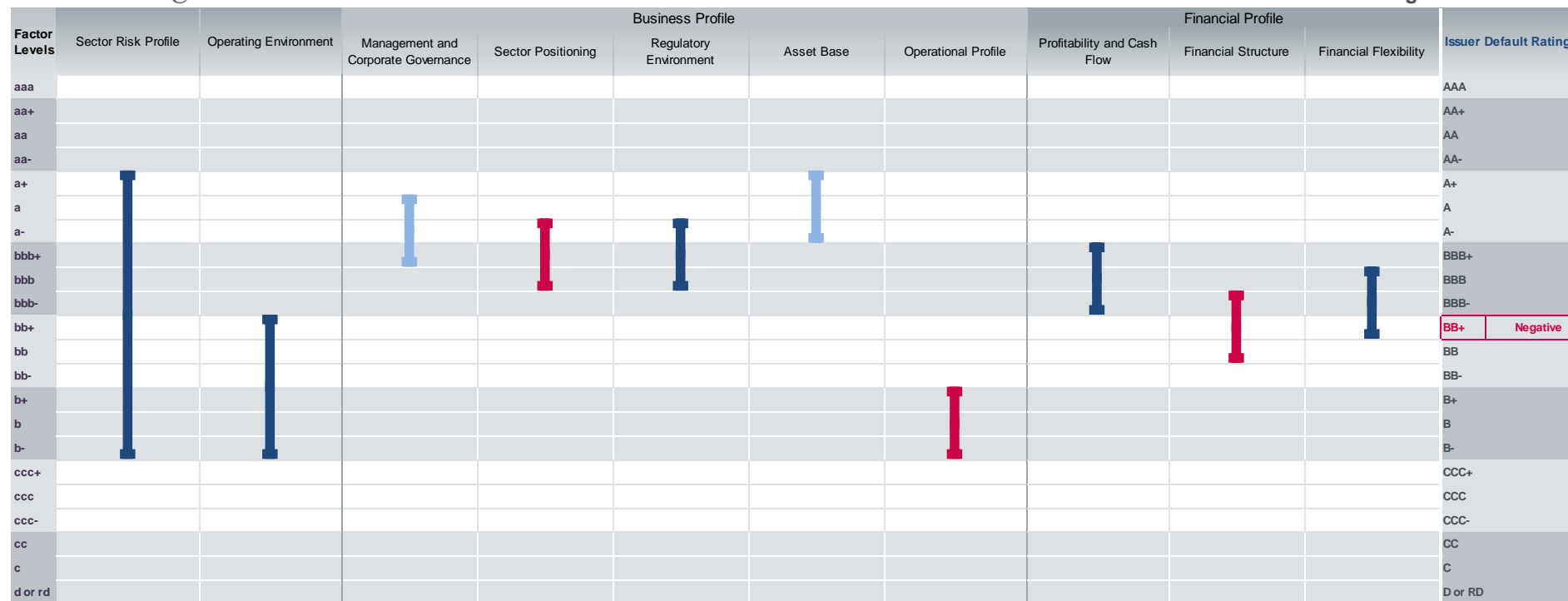
## Ratings Navigator

FitchRatings

NET4GAS, s.r.o.

ESG Relevance: 

Corporates Ratings Navigator  
EMEA Regulated Networks



Bar Chart Legend:			
Vertical Bars = Range of Rating Factor		Bar Arrows = Rating Factor Outlook	
Bar Colours = Relative Importance		↑	Positive
■	Higher Importance	↓	Negative
■	Average Importance	↕	Evolving
■	Lower Importance	□	Stable

### 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+			

### Sector Positioning

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

### Asset Base

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

### Profitability and Cash Flow

a-	Return on Capital	a	Return on capital at, or comfortably above, 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.
bbb-			
bb+			

### 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.

### 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			

### 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-			

### Operational Profile

bb-	Performance Measures	a	Key performance measures in line with or above sector average and/or regulatory target.
b+	Counterparty Risk	b	High counterparty and event risk; water suppliers with high doubtful debt levels. High concentration of cyclical industries.
b			
b-			
ccc+			

### Financial Structure

bbb	FFO Leverage	bb	7.0x
bbb-	FFO Net Leverage	bb	6.5x
bb+	Adjusted Net Debt/Asset Base (or Regulated Asset Base)	a	60%
bb	Cash PMICR	n.a.	
bb-	Nominal PMICR	n.a.	

### Credit-Relevant ESG Derivation

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



Credit-Relevant ESG Derivation

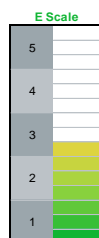
NET4GAS, s.r.o. has 9 ESG potential rating drivers

- ➔ 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.

				Overall ESG Scale	
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)

General Issues	E Score	Sector-Specific Issues	Reference
GHG Emissions & Air Quality	1	Emissions from operations	Profitability and Cash Flow
Energy Management	2	Energy and fuel use in operations; entities' financial targets for losses/shrinkage	Profitability and Cash Flow
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
Waste & Hazardous Materials Management; Ecological Impacts	2	Impact of waste including pollution incidents; discharge compliance; sludge disposal	Operations; Profitability and Cash Flow; Financial Flexibility
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



How to Read This Page

ESG scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant and green (1) is least relevant.

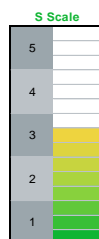
The Environmental (E), Social (S) and Governance (G) tables break out the individual components of the scale. The right-hand box shows the aggregate E, S, or G score. General Issues are relevant across all markets with Sector-Specific Issues unique to a particular industry group. Scores are assigned to each sector-specific issue. These scores signify the credit-relevance of the sector-specific issues to the issuing entity's overall credit rating. The Reference box highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis.

The Credit-Relevant ESG Derivation table shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the entity's credit rating. The three columns to the left of the overall ESG score summarize the issuing entity's sub-component ESG scores. The box on the far left identifies the some of the main ESG issues that are drivers or potential drivers of the issuing entity's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the score.

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) and the Sustainability Accounting Standards Board (SASB).

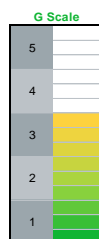
Social (S)

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



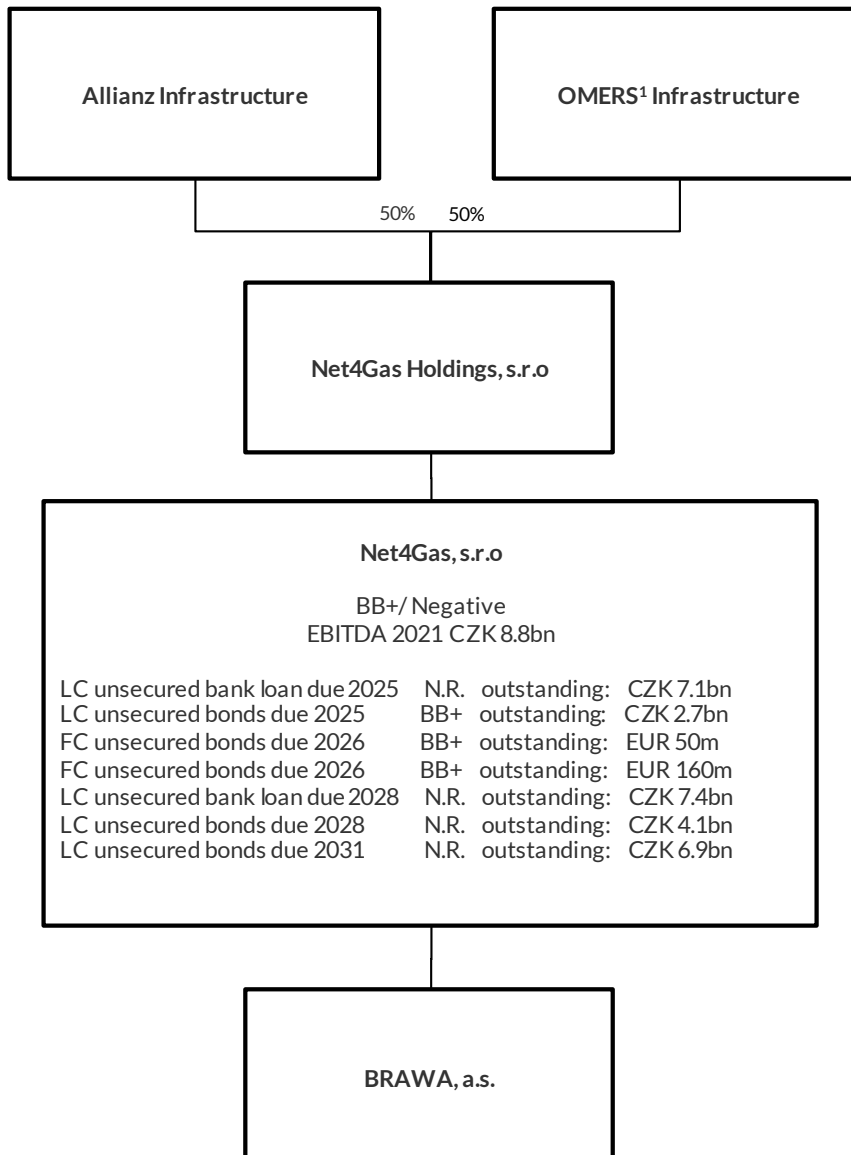
Governance (G)

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



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 "low er" 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



Note: Debt structure expected at yearend 2021  
Source: Fitch Ratings, Fitch Solutions, Net4gas

## Peer Financial Summary

Company	Issuer Default Rating	Financial statement date	Gross revenue (EURm)	EBITDA (EURm)	FCF (EURm)	FFO interest coverage (x)	FFO net leverage (x)
Net4gas, s.r.o.	BB+						
	BBB	2021	405	344	-15	11.7	4.0
	BBB	2020	380	333	-167	11.6	3.5
	BBB	2019	314	272	-266	8.3	4.3
eustream, a.s.	BBB						
	A-	2021	622	547	20	11.9	2.7
	A-	2020	748	677	184	11.7	2.1
	A-	2019	793	705	31	13.2	2.1
SNTGN TRANSGAZ SA	BBB-						
	BBB-	2021	278	98	-58	19.9	3.5
	BBB-	2020	277	86	-230	18.8	3.8
	BBB-	2019	333	113	-165	135.2	0.5
EP Infrastructure, a.s.	BBB-						
	BBB-	2021	2,792	1,265	458	10.1	3.0
	BBB-	2020	3,195	1,453	-202	9.4	3.1
	BBB-	2019	3,476	1,642	485	11.4	3.0
Snam S.p.A.	BBB+						
	BBB+	2021	3,297	2,237	-723	17.4	7.0
	BBB+	2020	2,770	2,158	-354	12.7	6.6
	BBB+	2019	2,665	2,200	-218	10.4	6.2
Czech Gas Networks Investments S.a.r.l	BBB						
	BBB	2021	588	399	-509	9.1	5.9
	BBB	2020	553	338	5	7.2	5.2

Source: Fitch Ratings, Fitch Solutions, Net4gas

## Fitch Adjusted Financials

(CZKm) 31 Dec 21	Notes and formulas	Reported values	Sum of adjustments	CORP- lease treatment	Other adjustments	Adjusted values
<b>Income statement summary</b>						
Revenue		10,373				10,373
EBITDAR		8,978	-142	-49	-93	8,836
EBITDAR after associates and minorities	(a)	8,978	-142	-49	-93	8,836
Lease expense	(b)	23				23
EBITDA	(c)	8,955	-142	-49	-93	8,813
EBITDA after associates and minorities	(d) = (a-b)	8,955	-142	-49	-93	8,813
EBIT	(e)	6,407	-98	-5	-93	6,309
<b>Debt and cash summary</b>						
Other off balance sheet debt	(f)	0				0
Debt <sup>b</sup>	(g)	33,820	-38	-164	126	33,782
Lease-equivalent debt	(h)	0				0
Lease-adjusted debt	(i) = (g+h)	33,820	-38	-164	126	33,782
Readily available cash and equivalents	(j)	1,352				1,352
Not readily available cash and equivalents		0				0
<b>Cash flow summary</b>						
EBITDA after associates and minorities	(d) = (a-b)	8,955	-142	-49	-93	8,813
Preferred dividends (paid)	(k)	0				0
Interest received	(l)	11				11
Interest (paid)	(m)	-686				-686
Cash tax (paid)		-806				-806
Other items before funds from operations (FFO)		-52	98	5	93	46
FFO	(n)	7,422	-44	-44		7,378
Change in working capital (Fitch-defined)		-1,119				-1,119
Cash flow from operations (CFO)	(o)	6,303	-44	-44		6,259
Non-operating/non-recurring cash flow		0				0
Capital (expenditures)	(p)	-2,669				-2,669
Common dividends (paid)		-3,984				-3,984
Free cash flow		-350	-44	-44		-394
<b>Gross leverage (x)</b>						
EBITDAR leverage <sup>a</sup>	(i/a)	3.8				3.8
FFO adjusted leverage	(i)/(n-m-l-k+b)	4.2				4.2
FFO leverage	(i-h)/(n-m-l-k)	4.2				4.2
EBITDA leverage <sup>a</sup>	(i-h)/d	3.8				3.8
(CFO capex)/debt (%)	(o+p)/(i-h)	10.7%				10.6%
<b>Net leverage (x)</b>						
EBITDAR leverage <sup>a</sup>	(i-j)/a	3.6				3.7
FFO adjusted net leverage	(i-j)/(n-m-l-k+b)	4.0				4.0
FFO net leverage	(i-h-j)/(n-m-l-k)	4.0				4.0
EBITDA net leverage <sup>a</sup>	(i-h-j)/d	3.6				3.7
(CFO capex)/debt (%)	(o+p)/(i-h-j)	11.2%				11.1%
<b>Coverage (x)</b>						
EBITDAR fixed charge coverage <sup>a</sup>	a/(-m+b)	12.7				12.5
EBITDA interest coverage <sup>a</sup>	d/(-m)	13.1				12.8
FFO fixed-charge coverage	(n-l-m-k+b)/(-m-k+b)	11.5				11.4
FFO interest coverage	(n-l-m-k)/(-m-k)	11.8				11.7

<sup>a</sup>EBITDA/R after dividends to associates and minorities.

<sup>b</sup>Includes other off balance sheet debt

Source: Fitch Ratings, Fitch Solutions, Net4gas

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