FitchRatings

Corporates
Utilities - Non US
Czech Republic

NET4GAS, s.r.o.

Ratings

Long-Term IDR	BB
Senior Unsecured Debt - Long-Term Rating	BB+

Outlook

Long-Term Foreign-Currency IDR	Positive

Click here for the full list of ratings

2035 Climate Vulnerability Signal: 45

Applicable Criteria

Corporate Rating Criteria (November 2023)

Exposure Draft: Government-Related Entities Rating Criteria (September 2023)

Corporates Recovery Ratings and Instrument Ratings Criteria (October 2023)

Parent and Subsidiary Linkage Rating Criteria (June 2023)

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

Related Research

Global Corporates Macro and Sector Forecasts (January 2024)

EMEA Utilities Outlook 2024 (November 2023)

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Fitch Ratings' upgrade of NET4GAS's Issuer Default Rating (IDR) mainly reflects supportive regulatory developments in the recent 2024 regulatory price decision, which we believe will almost double gas transportation revenues compared with 2023, while prospects for the international gas transit business remain depressed.

This supports NET4GAS's Standalone Credit Profile (SCP), which we view as having shifted to that of a predominantly regulated gas transmission system operator (TSO), and improves recovery prospects for senior unsecured creditors. This leads to a one-notch uplift on the senior unsecured instruments.

The Positive Outlook reflects the likelihood of support from the stronger parent CEPS, a.s. (and indirectly the Czech government) following the completion of its acquisition of NET4GAS. However, we are yet to form a final view on the magnitude of legal, operational and strategic incentives for CEPS to support NET4GAS under our *Parent and Subsidiary Linkage Rating Criteria* (PSL criteria).

Key Rating Drivers

Supportive Tariff Decision: We estimate that the 2024 tariff decisions will materially increase NET4GAS's allowed regulatory revenues to around CZK4.2 billion, higher than our prior expectation (CZK3.2 billion) and the CZK2.2 billion expected for 2023. This demonstrates the supportive attitude of the Czech regulator (ERO), which constructively reacted to the unprecedented changes in gas flows by accounting for the security of supply from NET4GAS's dual-use (internal and transit) infrastructure.

Limited Transit Prospects: We estimate low revenue contribution from international gas transit bookings for NET4GAS, at no more than CZK500 million-1.0 billion annually. There are limited upsides as Russian gas continues to flow to Central and Eastern Europe via Ukraine and Turkish stream routes.

Evolution Towards a Regulated TSO: NET4GAS's business is moving towards that of a regulated gas TSO, where short-term international transit is likely to represent close to 20% of the company's revenues. This will significantly improve the visibility of its operating cash flow and support its debt capacity. On the other hand, EBITDA in 2023 and future EBITDA forecast has more than halved from the CZK7.3 billion annual amount that we expected before Russia's invasion of Ukraine.

Updated Projections: We estimate EBITDA of around CZK1.8 billion in 2023 (2022: CZK11.3 billion), due to limited transit activity, and negative free cash flow (FCF) slightly higher than CZK1 billion. This results in double-digit funds from operations (FFO) net leverage in 2023, before it progressively declines towards 7.0x in 2025 (7.5x in our prior estimates), as EBITDA normalises at slightly more than CZK3.45 billion (CZK3.0 billion in our prior estimates) and with positive annual FCF estimated at more than CZK1.7 billion (we assume no dividends).

Similarly, we expect stretched FFO interest coverage of 1.1x in 2023 to improve towards 2.5x in 2024-2025, which would align with a 'BB' rating.

Senior Unsecured Rating Uplift: Under our methodology, NET4GAS's senior unsecured rating benefits from a one-notch uplift from the IDR, due to the significantly increased and predominant contribution of regulated activities to group EBITDA.

PSL Upside Unclear: Fitch expects the stronger credit profile of fully state-owned CEPS to have a positive influence on NET4GAS's ratings, now that the acquisition is complete. We are yet to form a final view on the links between the companies and assess the magnitude of CEPS' legal, operational and strategic incentives to support NET4GAS's credit profile. The group's prospective financial strategy and their legal links (such as permanent cross-default provision, if any) will be a key input for our analysis.

Financial Summary

(CZKm)	2020	2021	2022	2023E	2024F	2025F
EBITDA	8,801	8,813	11,266	1,837	3,377	3,495
FFO	7,007	7,378	8,860	692	2,381	2,588
FCF after acquisitions and divestitures	-4,378	-393	5,332	-1,006	4,656	1,759
FFO interest coverage (x)	11.6	11.7	6.8	1.1	2.1	2.8
FFO net leverage (x)	3.5	4.0	2.9	18.1	7.7	7.0

F — Forecast, E - Estimate

Source: Fitch Ratings, Fitch Solutions

Rating Derivation Relative to Peers

Following NET4GAS's shift towards being a predominantly regulated gas TSO, its closest peer is the large Czech gas distributor Czech Gas Networks Investments S.a r.l (CGNI; BBB/Stable), since they share the same operating environment, regulator and supportive regulations. On the other hand, Fitch sees higher debt capacity for CGNI (6.7x negative sensitivity at the 'BBB' rating level), mainly in light of its lack of exposure to unregulated businesses compared with 20% of NET4GAS represented by short term ship-or-pay gas transit contracts. CGNI's higher rating is also underpinned by its more conservative capital structure.

Compared with central and eastern European gas distributor peer SPP - distribucia, a.s. (SPPD; A-/Stable; SCP of 'a'), NET4GAS maintains similar debt capacity, benefiting from more mature regulations counterbalancing its unregulated exposure to international transit business. However, SPPD's conservative capital structure with average FFO net leverage below 3.0x mostly explains the rating differential in terms of SCP. SPPD's IDR is capped at one notch above the consolidated credit profile of its immediate parent, SPP Infrastructure, a.s. (SPPI), in line with our PSL criteria.

Notwithstanding a more advanced business transition towards a pure regulated gas TSO, the Romanian SNTGN TRANSGAZ SA (BBB-/Stable) has a less defensive business profile than NET4GAS. This stems from its significant cash flow volatility, resulting mainly from large regulatory correction adjustments. However, expected FFO net leverage is much more conservative averaging around 4.0x, explaining the rating differential.

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/Positive	bb+	a-	bbb	bbb+	bbb	bb+	bbb-	b+	bbb-
Czech Gas Networks Investments S.a r.l	BBB/Stable	a+	bbb	a-	bbb+	a-	a	bbb	bb+	a
SNTGN TRANSGAZ SA	BBB-/Stable	bbb-	bbb	bbb	bbb-	bbb	bbb	bb+	bbb+	bbb-
SPP - distribucia, a.s.	A-/Stable	a-	bbb+	a	bbb-	a-	a-	a-	a+	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/Positive	+1	+5	+3	+4	+3	+1	+2	-2	+2
Czech Gas Networks Investments S.a r.l	BBB/Stable	+4	0	+2	+1	+2	+3	0	-2	+3
SNTGN TRANSGAZ SA	BBB-/Stable	0	+1	+1	0	+1	+1	-1	+2	0
SPP - distribucia, a.s.	A-/Stable	0	-1	+1	-3	0	0	0	+2	-3

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

- Positive assessment of available legal, strategic and operational incentives to support from CEPS (or indirectly the Czech government) under our PSL criteria
- Further materially positive regulatory developments (including more long-term visibility)
- FFO net leverage below 7.0x and FFO interest coverage above 2.5x, with a business mix of about 70%-80% of EBITDA from regulated activities

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

- Negative regulatory updates for the domestic gas transport business amid continuously weak alternative gas transit
- FFO net leverage above 7.7x, and FFO interest coverage below 2.0x with a business mix of about 70%-80% of EBITDA from regulated activities

Liquidity and Debt Structure

Adequate Liquidity: Cash on balance sheet was around CZK5.7 billion at end-August 2023. This was sufficient to cover remaining 2023 and 2024 operating expenses (of about CZK1.2 billion a year), financial charges (about CZK1.5 billion a year) and expected capex (cumulatively below CZK1 billion). We expect the first significant debt maturity only from mid-2025 at almost CZK10 billion.

ESG Considerations

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' 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. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

Climate Vulnerability Considerations

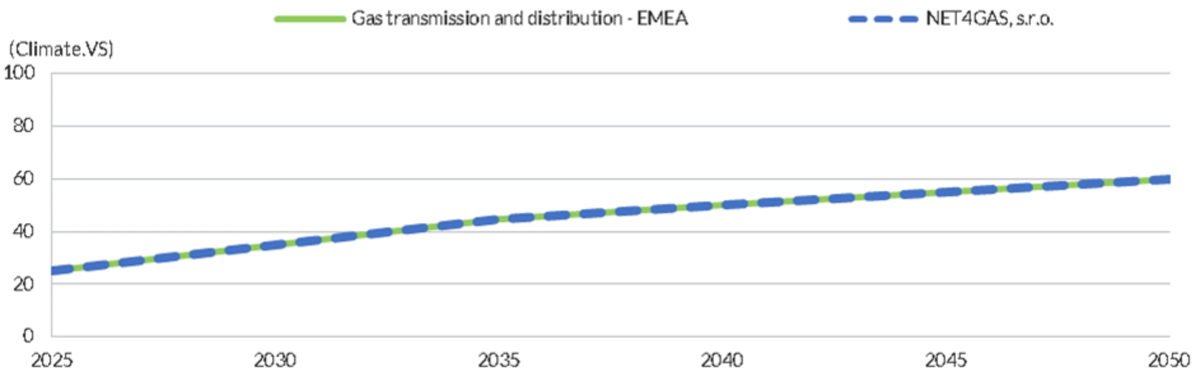
Fitch uses Climate Vulnerability Signals (Climate.VS) as a screening tool to identify sectors and Fitch-rated issuers that are potentially most exposed to credit-relevant climate transition risks and, therefore, require additional consideration of these risks in rating reviews. Climate.VS range from 0 (lowest risk) to 100 (highest risk). For more information on Climate.VS, see Fitch's Corporate Rating Criteria.

The FY22 revenue-weighted 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 Update.

Key transition risks for the gas transmission and distribution sector arise from a 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 revenue. 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

Liquidity Analysis

(CZKm)	2023E	2024F	2025F
Available liquidity			
Beginning cash balance	6,812	5,746	10,402
Rating case FCF after acquisitions and divestitures	-1,006	4,656	1,759
Total available liquidity (A)	**5,806**	**10,402**	**12,161**
Liquidity uses			
Debt maturities	-60	0	-9,840
Total liquidity uses (B)	**-60**	**0**	**-9,840**
Liquidity calculation			
Ending cash balance (A+B)	5,746	10,402	2,321
Revolver availability	0	0	0
Ending liquidity	**5,746**	**10,402**	**2,321**
Liquidity score (x)	96.8	Not meaningful	1.2

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

Scheduled debt maturities

(CZKm)	31 December 2022
2023	60
2024	0
2025	9,840
2026	5,119
2027	0
Thereafter	18,723
Total[a]	**33,742**

[a] Excluding EUR1.3 billion of cross-currency swap liabilities
Source: Fitch Ratings, Fitch Solutions, NET4GAS, s.r.o.

Key Assumptions

- TSO revenue based on the current regulatory framework, the 2024 price decision, and the 2025 consultation paper of the network code for harmonised transmission tariff structures (NC TAR)
- International gas transit contributing CZK500 million-1 billion of revenue a year
- Annual operating expenditure of CZK1.2 billion, including some cost rationalisation
- Working-capital absorption of CZK400 million in 2023, and neutral working capital over 2024-2026
- Cumulative capex of CZK3.7 billion in 2023-2026 (slowly declining), including some spending cuts
- Full repayment of 2025 debt maturity
- No dividend payments

Financial Data

(CZKm)	2020	2021	2022	2023E	2024F	2025F
Summary income statement						
Gross revenue	10,029	10,373	12,950	2,937	5,002	5,184
Revenue growth (%)	24.5	3.4	24.8	-77.3	70.3	3.6
EBITDA before income from associates	8,801	8,813	11,266	1,837	3,377	3,495
EBITDA margin (%)	87.8	85.0	87.0	62.5	67.5	67.4
EBITDA after associates and minorities	8,801	8,813	11,266	1,837	3,377	3,495
EBITDAR	8,801	8,836	11,266	1,837	3,377	3,495
EBITDAR margin (%)	87.8	85.2	87.0	62.5	67.5	67.4
EBIT	6,440	6,309	8,800	-958	597	691
EBIT margin (%)	64.2	60.8	68.0	-32.6	11.9	13.3
Gross interest expense	-643	-780	-1,664	-1,420	-1,509	-1,168
Pretax income including associate income/loss	5,241	4,696	7,685	-1,862	-195	75
Summary balance sheet						
Readily available cash and equivalents	2,226	1,352	6,812	5,806	10,461	2,521
Debt	29,232	33,782	35,014	35,014	35,014	25,314
Lease-adjusted debt	29,232	33,782	35,014	35,014	35,014	25,314
Net debt	27,006	32,430	28,202	29,208	24,553	22,793
Summary cash flow statement						
EBITDA	8,801	8,813	11,266	1,837	3,377	3,495
Cash interest paid	-659	-686	-1,450	-1,420	-1,509	-1,168
Cash tax	-1,056	-806	-1,454	-200	-163	-214
Dividends received less dividends paid to minorities (inflow/outflow)	—	—	—	—	—	—
Other items before FFO	-87	46	68	-25	-25	-25
FFO	7,007	7,378	8,860	692	2,381	2,588
FFO margin (%)	69.9	71.1	68.4	23.6	47.6	49.9
Change in working capital	-11	-1,119	272	-400	—	—
CFO (Fitch-defined)	6,996	6,259	9,132	292	2,381	2,588
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	—	—	—	—
FCF	-4,402	-394	5,332	—	—	—
FCF margin (%)	-43.9	-3.8	41.2	—	—	—
Net acquisitions and divestitures	24	1	—	—	—	—
Other investing and financing cash flow items	42	44	31	49	3,049	49
Net debt proceeds	-1	6,325	97	—	—	-9,700
Net equity proceeds	4,401	-6,850	—	—	—	—
Total change in cash	64	-874	5,460	-1,006	4,656	-7,941
Leverage ratios (x)						
EBITDA leverage	3.3	3.8	3.1	19.1	10.4	7.2
EBITDA net leverage	3.1	3.7	2.5	15.9	7.3	6.5
EBITDAR leverage	3.3	3.8	3.1	19.1	10.4	7.2
EBITDAR net leverage	3.1	3.7	2.5	15.9	7.3	6.5
EBITDAR net fixed-charge coverage	13.5	12.7	11.0	2.0	4.2	5.2
FFO adjusted leverage	3.8	4.2	3.5	21.7	11.0	7.8
FFO adjusted net leverage	3.5	4.0	2.9	18.1	7.7	7.0
FFO leverage	3.8	4.2	3.5	21.7	11.0	7.8
FFO net leverage	3.5	4.0	2.9	18.1	7.7	7.0

(CZKm)	2020	2021	2022	2023F	2024F	2025F
Calculations for forecast publication						
Capex, dividends, acquisitions and other items before FCF	-11,374	-6,652	-3,800	-1,347	-774	-878
FCF after acquisitions and divestitures	-4,378	-393	5,332	-1,055	1,607	1,710
FCF margin after net acquisitions (%)	-43.7	-3.8	41.2	-35.9	32.1	33.0
Coverage ratios (x)						
FFO interest coverage	11.6	11.7	6.8	1.1	2.1	2.8
FFO fixed-charge coverage	11.6	11.4	6.8	1.1	2.1	2.8
EBITDAR fixed-charge coverage	13.4	12.5	7.8	1.3	2.2	3.0
EBITDA interest coverage	13.4	12.8	7.8	1.3	2.2	3.0
Additional metrics (%)						
CFO-capex/debt	1.5	10.6	15.2	-3.0	4.6	6.8
CFO-capex/net debt	1.6	11.1	18.9	-3.6	6.5	7.5
CFO/capex	106.6	234.5	240.3	21.7	307.6	294.8

CFO – Cash flow from operations
Source: Fitch Ratings, Fitch Solutions

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

Bar Chart Legend:	
Vertical Bars = Range of Rating Factor	Bar Arrows = Rating Factor Outlook
Bar Colors = Relative Importance	⇧ Positive
Higher Importance	⇩ Negative
Average Importance	⇳ Evolving
Lower Importance	□ Stable

FitchRatings

NET4GAS, s.r.o.

Corporates Ratings Navigator
EMEA Regulated Networks

Operating Environment

	Sub-Factor	Score	Description
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

	Sub-Factor	Score	Description
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

	Sub-Factor	Score	Description
a-	Operation Type	a	National or regional monopolies, transmission or distribution asset owners.
bbb+	Non-Regulated Earnings (% of Total Earnings)	bb	up to 20%
bbb			
bbb-			
bb+			

Regulatory Environment

	Sub-Factor	Score	Description
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

	Sub-Factor	Score	Description
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

	Sub-Factor	Score	Description
bbb	Performance Measures	a	Key performance measures in line with or above sector average and/or regulatory target.
bbb-	Counterparty Risk	bbb	Medium counterparty risk; medium collection rates for water suppliers. Some exposure to cyclical industries and/or customers.
bb+			
bb			
bb-			

Profitability and Cash Flow

	Sub-Factor	Score	Description
bbb+	Return on Capital	bb	Return on capital below the regulatory benchmark.
bbb	Volatility of Profitability	bbb	Stability and predictability of profit in line with 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

	Sub-Factor	Score	Description
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

	Sub-Factor	Score	Description
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	bb	2.0x
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
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

E Relevance: 5, 4, 3, 2, 1

Social (S) Relevance Scores

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

S Relevance: 5, 4, 3, 2, 1

Governance (G) Relevance Scores

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

G Relevance: 5, 4, 3, 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 reflect a negative impact unless indicated with a '+' sign for positive impact.

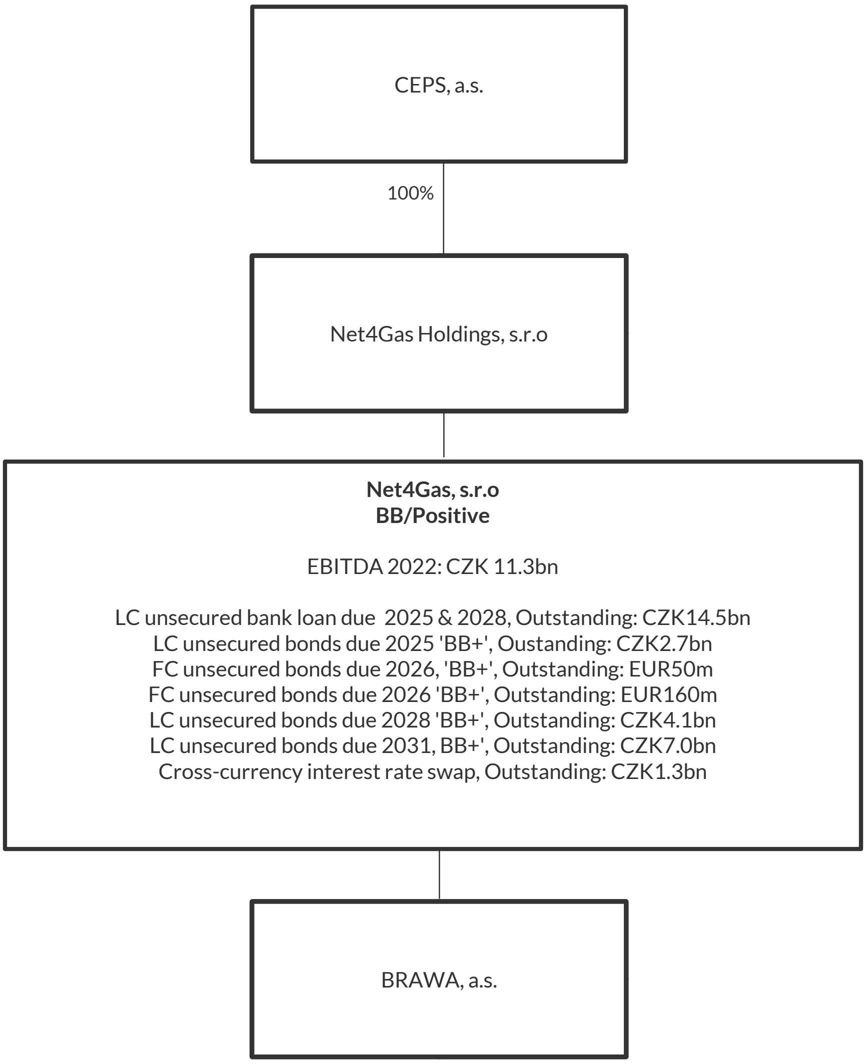
Classification of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Principles for Responsible Investing (PRI), the Sustainability Accounting Standards Board (SASB), and 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



LC – local currency, FC – foreign currency
Source: Fitch Ratings, Fitch Solutions, Net4Gas, s.r.o., as of January 2024

Peer Financial Summary

Company	Issuer Default Rating	Financial statement date	EBITDA (EURm)	FFO (EURm)	FCF (EURm)	FFO interest coverage (x)	FFO net leverage
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
Czech Gas Networks Investments S.a r.l	BBB						
	BBB	2022	381	295	89	7.1	6.5
	BBB	2021	408	329	-520	9.1	5.9
	BBB	2020	339	267	5	7.2	5.2
SPP - distribucia, a.s.	A-						
	BBB+	2022	348	280	87	54.6	1.2
	A-	2021	340	262	162	20.6	1.6
	A-	2020	323	246	-60	19.2	2.3
SNTGN TRANSGAZ SA	BBB-						
	BBB-	2022	118	77	-56	5.2	3.8
	BBB-	2021	97	88	-58	19.9	3.5
	BBB-	2020	86	74	-230	18.8	3.8
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
REN - Redes Energeticas Nacionais, SGPS, S.A.	BBB						
	BBB	2022	477	355	326	9.7	5.2
	BBB	2021	454	345	439	9.7	6.1
	BBB	2020	463	372	89	7.9	6.5
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

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

Fitch Adjusted Financials

(CZKm as of 31 December 2022)	Notes and formulas	Standardised values	Lease treatment	Other adjustments	Adjusted values
Income statement summary					
Revenue		12,950	—	—	12,950
EBITDA	(a)	11,367	-39	-62	11,266
Depreciation and amortisation		-2,497	31	—	-2,466
EBIT		8,870	-8	-62	8,800
Balance sheet summary					
Debt	(b)	34,006	-264	1,272	35,014
Of which other off-balance-sheet debt		—	—	—	—
Lease-equivalent debt		—	—	—	—
Lease-adjusted debt		34,006	-264	1,272	35,014
Readily available cash and equivalents	(c)	949	—	5,863	6,812
Not readily available cash and equivalents		—	—	—	—
Cash flow summary					
EBITDA	(a)	11,367	-39	-62	11,266
Dividends received from associates less dividends paid to minorities	(d)	—	—	—	—
Interest paid	(e)	-1,450	—	—	-1,450
Interest received	(f)	430	—	—	430
Preferred dividends paid	(g)	—	—	—	—
Cash tax paid		-1,454	—	—	-1,454
Other items before FFO		-2	8	62	68
FFO	(h)	8,891	-31	—	8,860
Change in working capital		272	—	—	272
CFO	(i)	9,163	-31	—	9,132
Non-operating/nonrecurring cash flow		—	—	—	—
Capex	(j)	-3,800	—	—	-3,800
Common dividends paid		—	—	—	—
FCF		5,363	-31	—	5,332
Gross leverage (x)					
EBITDA leverage	b / (a+d)	3.0	—	—	3.1
FFO leverage	b / (h-e-f-g)	3.4	—	—	3.5
(CFO-capex)/debt (%)	(i+j) / b	15.8	—	—	15.2
Net leverage (x)					
EBITDA net leverage	(b-c) / (a+d)	2.9	—	—	2.5
FFO net leverage	(b-c) / (h-e-f-g)	3.3	—	—	2.9
(CFO-capex)/net debt (%)	(i+j) / (b-c)	16.2	—	—	18.9
Coverage (x)					
EBITDA interest coverage	(a+d) / (-e)	7.8	—	—	7.8
FFO interest coverage	(h-e-f-g) / (-e-g)	6.8	—	—	6.8

CFO - Cash flow from operations
Notes: The standardised items presented above are based on Fitch's taxonomy for the given sector and region.
Reported items may not match the Fitch taxonomy, but they are captured into corresponding lines accordingly.
Debt includes other off-balance-sheet debt.
Source: Fitch Ratings, Fitch Solutions, NET4GAS, s.r.o.

SOLICITATION & PARTICIPATION STATUS

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.