

**Rating Action: Moody's assigns first-time Baa2 ratings to NET4GAS**

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28 Jan 2019

London, 28 January 2019 -- Moody's Investors Service Ltd. (Moody's) has today assigned a Baa2 long-term issuer rating to NET4GAS, s.r.o (N4G). The rating outlook is stable. Concurrently, Moody's also assigned Baa2 senior unsecured debt ratings to the following bonds issued by N4G:

- CZK 4,354.3 million 2.25% fixed-rate bonds due 28 January 2021 (original amount CZK 7,000 million)
- EUR 300 million 2.5% fixed-rate bonds due 28 July 2021
- EUR 160 million 3.5% fixed-rate bonds due 27 July 2026
- CZK 2,643 million 2.75% fixed-rate bonds due 17 July 2025 (original amount up to CZK 7,000 million)

This is the first time Moody's has assigned a rating to N4G.

**RATINGS RATIONALE**

N4G's Baa2 senior unsecured ratings are underpinned by (1) the company's position as the monopoly provider of gas transmission and transit services in the Czech Republic; (2) its strategic location along the preferred route for shipping Russian gas to Western Europe; and (3) the stable and predictable cash flows generated from the long-term capacity ship-or-pay contracts, which underpin around 75-80% of revenues, as well as regulated tariffs for domestic transmission activities, which account for the remaining 20-25% of revenues.

However, N4G's credit quality is constrained by (1) materially higher leverage than exhibited by other European gas transit peers, in particular Slovak pipeline owner, eustream, a.s.; (2) significant customer concentration and associated geopolitical risks; and (3) large capital investment projects to extend N4G's transit capacity, scheduled over the next five years. Moody's notes positively the shareholder commitment to provide equity support for the two main capital expenditure projects, which will reduce funding risk and support maintenance of current credit quality.

**RATING OUTLOOK**

The stable outlook reflects Moody's expectation that N4G's business and financial profile will evolve in a relatively predictable fashion due to the stability of cash flows generated under very long-term ship-or-pay capacity contracts as well as from monopoly-regulated domestic transmission network operations. It also takes account of the supportive approach that shareholders are taking in the context of material upcoming investment requirements.

**WHAT COULD CHANGE THE RATING UP/DOWN**

The Baa2 ratings could be considered for an upgrade, if (1) N4G's financial profile improved, with funds from operations (FFO)/Debt in the mid-twenties in percentage terms, while maintaining a business risk profile underpinned by stable and predictable cash flows; or (2) the company were able to diversify its revenue base across a portfolio of strong counterparties.

Conversely, downward pressure could develop, if (1) N4G's credit metrics deteriorated below our expectations, in particular FFO/Debt below the mid-teens in percentage terms; (2) geopolitical tensions affect the key counterparty's ability or willingness to comply with its ship-or-pay obligations; (3) shareholders do not honour their contractually agreed equity support for the investment in the Capacity4Gas project to provide a connection to EUGAL in Germany for gas flows towards Slovakia; or (4) there was a general shift towards a more aggressive financial policy.

The principal methodology used in these ratings was Natural Gas Pipelines published in July 2018. Please see the Rating Methodologies page on [www.moody's.com](http://www.moody's.com) for a copy of this methodology.

NET4GAS, s.r.o is the owner and operator of the Czech gas transmission system. The company's core

business consists of transporting gas, primarily sourced from Russia, towards Western and Southern Europe under long-term contracts. It is also the regulated domestic gas transmission network operator under an unlimited licence.

N4G is directly wholly owned by NET4GAS Holdings, s.r.o., which in turn is owned 50% owned by Allianz Infrastructure Czech Holdco II S.a r.l., part of the wider Allianz Group and 50% by Borealis Novus Parent B.V., a subsidiary of OMERS Administration Corporation.

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