

Rating Action: Moody's reviews NET4GAS' Baa2 ratings for downgrade

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Frankfurt am Main, March 03, 2022 -- Moody's Investors Service ("Moody's") has today placed on review for downgrade the Baa2 long-term issuer and senior unsecured debt ratings of NET4GAS, s.r.o. (N4G). The outlook has been changed to ratings under review from stable.

RATINGS RATIONALE / FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

The review for downgrade of N4G's ratings is triggered by the company's exposure to the heightened geopolitical risk for gas transit from Russia (B3 review for downgrade) to Europe, resulting from Russia's further military assault in Ukraine (B3 review for downgrade) which started on 24 February 2022.

N4G, the owner and operator of the gas transmission system in the Czech Republic (Aa3 stable), is generating around 75% of its revenues from transporting gas that is primarily sourced from Russia to Western and Southern Europe under long-term gas transit contracts. The Russian company Gazprom Export LLC, a 100% subsidiary of Gazprom, PJSC (Baa2 RUR), has the monopoly on pipeline gas exports from Russia. N4G's transit contracts are largely on a ship-or-pay basis, meaning that the company receives most income from capacity payments and independent of actual gas flows. The contracts are primarily with the major Russian gas shipper.

The placement of N4G's ratings on review for downgrade reflects the company's exposure to the weakening of the credit profile of the major Russian gas shipper; and the risk of negative credit implications for N4G from the additional and more severe sanctions imposed on the Government of Russia and certain Russian financial institutions by Western countries. For example, financial sector sanctions could disrupt cross-border payments associated with Russia's gas exports.

The review will focus on (1) the evolution and potential effect of sanctions on N4G's cash flow and liquidity, as well as (2) the likelihood of potential shareholder support to the company in the event of financial distress.

Given the review for downgrade, an upgrade of N4G's ratings is remote. The ratings could be confirmed with a negative outlook if N4G continues to receive due capacity payments under the long-term transit contracts; and if there is a high likelihood that such payments will not be impeded by sanctions in the foreseeable future; or if the company obtains adequate support from its owners or other stakeholders to offset any deterioration of its current credit profile.

N4G's ratings could be downgraded if capacity payments to the company were to be discontinued or materially delayed, for example due to sanctions, resulting in material pressure on its liquidity and financial profile, reflected in the deterioration of funds from operations (FFO) to debt below the mid-teens in percentage terms on a sustained basis; or if there is a significant deterioration in N4G's customer portfolio risk profile without offsetting support from shareholders or other parties.

The principal methodology used in these ratings was Natural Gas Pipelines published in July 2018 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1113727. Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

NET4GAS, s.r.o. is the owner and operator of the Czech gas transmission system. N4G is ultimately 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. 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. In 2020, N4G reported revenues of CZK10,029 million and EBITDA amounting to CZK8,744 million.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections

Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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