FitchRatings

RATING ACTION COMMENTARY

Fitch Upgrades NET4GAS's IDR to 'BBB+' and Unsecured Notes to 'A-'; Outlook Stable

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Fitch Ratings - Warsaw - 09 Dec 2025: Fitch Ratings has upgraded NET4GAS, s.r.o.'s Long-Term Issuer Default Rating (IDR) to 'BBB+' from 'BBB-' and its senior unsecured rating to 'A-' from 'BBB'. The Outlook on the Long-Term IDR is Stable.

The two-notch upgrade of the IDR reflects NET4GAS's improving business profile, supported by the regulatory framework, and improving capital structure, through debt repayments. The company's business mix has transitioned into a pure regulated network that merits a higher debt capacity. The approved sixth regulatory period for 2026-2030 (RP6), broadly in line with the previous consultation document, will allow the company to reduce its funds from operations (FFO) net leverage to an average of about 5x in 2026-2028, from 6.1x in 2024, and generate positive free cash flow (FCF).

KEY RATING DRIVERS

Strong Financial Improvement: The final decision for RP6 is positive for NET4GAS's credit profile. This will lead to FFO net leverage of around 5x over 2026-2028, versus 5.5x previously expected over 2025-2026. NET4GAS's regulatory asset base is to expand, growing annually until it reaches its book value of about CZK37 billion in 2030 and will translate into a moderate net debt/ regulatory asset base, falling to 53% in 2028 from 66% expected in 2025.

In our updated rating case for 2026-2028, we expect NET4GAS's total revenue to average CZK5.7 billion, versus CZK5.1 billion in 2024. The revenue is now solely derived from regulated network operations that have low business risk, in contrast to higher-risk international gas transit business.

Supportive Single Revenue Cap Model: We now view NET4GAS as a pure gas transmission network operator with stable and predictable revenue and negligible volume risk. The RP6 confirms that both gas transport and transit activities are remunerated under a single revenue cap regime over 2026-2030, where a shortfall or

surplus in transit volumes would be allocated to a regulatory account, which would be neutral to regulated revenue over the mid term. The improved business profile led us to further relax the company's rating sensitivities.

Strong 2025 Results, 2027 Corrections: Fitch expects NET4GAS to post exceptionally good results in 2025, with EBITDA of CZK4.8 billion versus CZK4.0 billion in 2024, supported by extra transit revenue, additional bookings, and positive adjustments across the revenue cap building blocks. These surpluses, along with favourable transport corrections, will be balanced out through regulatory corrections in 2027 and result in weaker EBITDA of CZK3.7 billion that year.

Improved Capital Structure: NET4GAS has sharply reduced its gross debt, repaying CZK9.7 billion in the first seven months of 2025 by using its own cash reserves, with further decline by CZK1.2 billion likely in 2026. We also expect the company to repay CZK1.2 billion maturing debt in 2026 from cash and refinance its remaining CZK4 billion debt due in the same period with already committed long-term credit facilities. The debt reduction is credit positive and mirrors the reduced EBITDA at CZK4.3 billion on average in 2025-2028 versus the CZK7.3 billion expected before Russia's invasion of Ukraine.

Upside from RP6: We project annual FFO of around CZK3.1 billion in 2026-2028 following the approval of the RP6 by the regulator, which together with neutral working capital and average capex at CZK1.6 billion a year will lead to a positive pre-dividend free cash flow (FCF) on average at CZK1.5 billion. Fitch assumes that following the bond repayments in 2026 the company will reinstate dividends at a level commensurate with the net income of the previous year, which will partly absorb the FCF but leave some space for further deleveraging.

Standalone Approach: We rate NET4GAS based on a standalone basis, due to weak links with its stronger Czech parent, the state-owned electricity transmission system operator (TSO) CEPS, a.s. In our view legal incentives for the parent to support the subsidiary are low as CEPS does not guarantee any NET4GAS debt and there is no cross-default language related to NET4GAS under CEPS's debt documentation. Operational and strategic incentives are also weak, in our view, due to limited opportunities for synergies and joint value creation.

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 contribution of regulated activities to EBITDA in a regulatory framework that we consider reliable.

PEER ANALYSIS

NET4GAS's closest peer following its transition to a regulated gas TSO is the gas distributor Czech Gas Networks Investments S.a r.l (CGNI; BBB+/Stable, Standalone Credit Profile (SCP): bbb). CGNI has slightly higher debt capacity given its longer record of fully regulated revenue and larger scale. However, NET4GAS's stronger financial profile supports a higher assessment than CGNI's SCP. CGNI's IDR benefits from a one-notch uplift for links with its parent, CEZ, a.s.

NET4GAS has higher debt capacity than Slovak gas distributor, SPP - distribucia, a.s. (SPPD; A-/Stable), due to more mature regulation. However, SPPD's conservative capital structure explains its higher 'a' SCP. SPPD's IDR is capped at one notch above the consolidated credit profile of its immediate parent.

Romania-based SNTGN Transgaz SA (BBB-/Positive) is rated below NET4GAS despite its lower leverage. The lower rating reflects a less defensive business profile, with cash flows subject to material volatility from large regulatory correction adjustments.

eustream, a.s. (BBB+/Stable, SCP of bbb) used to be NET4GAS' closest rated peer but their debt capacity trajectories have materially diverged following NET4GAS's shift towards being a fully regulated gas TSO. The moderate net leverage of eustream partly balances this gap in the business profile. eustream's IDR benefits from a one-notch uplift for links with its parent.

NET4GAS's business risk is higher than that of the Italian transportation system operator Snam S.p.A. (BBB+/Stable), due to better regulatory features in Italy, such as a longer record of fully independent regulation. It is balanced by higher leverage, resulting in the same ratings as NET4GAS.

FITCH'S KEY RATING-CASE ASSUMPTIONS

- Revenue in 2026-2029 based on the RP6 determination published by the regulator

- Base weighted average cost of capital for RP6 at 6.9% and 1.5% weighted average cost of capital bonus

- Fitch-defined EBITDA to average CZK4.3 billion a year over 2025-2028

- Broadly neutral working capital changes over 2025-2028

- Average annual capex of CZK1.4 billion over 2025-2028

- Cost of debt to average 4.3% until 2028

- Refinancing of the EUR160 million bonds maturing in July 2026 with committed bank loans and repayment of EUR50 million bonds maturing at the same time with cash

- No dividends paid over 2025-2026; dividends likely to be reinstated in 2027 at a level commensurate with the annual net income of the previous year

RATING SENSITIVITIES

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

- Material negative regulatory developments affecting revenue levels and predictability, for example, by lower-than-expected tariffs or renewed exposure to commercial risk arising from the international gas transit business

- FFO net leverage above 5.8x and FFO interest coverage below 4.0x

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

- Clear commitment to a financial policy that is consistent with FFO net leverage below 4.8x, coupled with record of tariff regulations providing satisfactory long-term revenue visibility

- Stronger legal, strategic or operational links with CEPS or, indirectly, with the Czech government to support NET4GAS under our Parent-Subsidiary Linkage Criteria or Government-Related Entities Criteria

LIQUIDITY AND DEBT STRUCTURE

We forecast NET4GAS's cash on balance sheet at about CZK4.4 billion at end-2025. This, together with the undrawn committed CZK4.0 billion bank debt and projected positive FCF generation of about CZK1.7 billion in 2026, is more than sufficient to cover the EUR160 million and EUR50 million bonds maturating in July 2026, equivalent to CZK5.3 billion in total.

ISSUER PROFILE

NET4GAS is the Czech Republic's national gas TSO and operates the gas transit infrastructure to central European markets. With bi-directional flow capacity, NET4GAS

operates a large high-pressure gas transmission and transit system of 4,058 km of pipelines.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

MACROECONOMIC ASSUMPTIONS AND SECTOR FORECASTS

Click here to access Fitch's latest quarterly Global Corporates Sector Forecasts Monitor data file which aggregates key data points used in our credit analysis. Fitch's macroeconomic forecasts, commodity price assumptions, default rate forecasts, sector key performance indicators and sector-level forecasts are among the data items included.

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.

RATING ACTIONS

ENTITY / DEBT	RATING			PRIOR
NET4GAS, s.r.o.	LT IDR	BBB+ Rating Outlook Stable	Upgrade	BBB- Rating Outlook Positive
senior unsecured	LT	A-	Upgrade	BBB

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

Corporates Recovery Ratings and Instrument Ratings Criteria (pub. 02 Aug 2024) (including rating assumption sensitivity)

Parent and Subsidiary Linkage Rating Criteria (pub. 27 Jun 2025)

Corporate Rating Criteria (pub. 27 Jun 2025) (including rating assumption sensitivity)

Sector Navigators – Addendum to the Corporate Rating Criteria (pub. 27 Jun 2025)

Government-Related Entities Rating Criteria (pub. 18 Jul 2025)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Corporate Monitoring & Forecasting Model (COMFORT Model), v8.2.0 (1)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

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NET4GAS, s.r.o.	EU Issued, UK Endorsed

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