

Rating Action: Moody's downgrades NET4GAS' ratings to Ba2, maintains review for downgrade

23 Mar 2022

Frankfurt am Main, March 23, 2022 -- Moody's Investors Service ("Moody's") has today assigned a Ba2 Corporate Family Rating (CFR) and a Ba2-PD probability of default rating to NET4GAS, s.r.o. (N4G) and has downgraded the company's senior unsecured debt ratings to Ba2 from Baa2. All of N4G's ratings are on review for downgrade. Concurrently, Moody's has withdrawn the Baa2 long-term issuer ratings, as per the rating agency's practice for corporates transitioning to speculative grade. The outlook remains ratings under review.

A full list of affected ratings is provided towards the end of this press release.

RATINGS RATIONALE

The downgrade of N4G's ratings reflects the company's exposure to the risk of negative credit implications from the severe sanctions imposed on the Government of Russia (Ca negative) and certain Russian financial institutions by Western countries which could disrupt the receipt of payments owed to N4G from its main counterparty. While the European Union (EU, Aaa stable) sanctions that have been put in place since the invasion of Ukraine (Caa2 review for downgrade) by Russia exclude energy-related payments and are not directly imposed on the major Russian gas shipper, Moody's considers the risk that additional EU sanctions and/or countermeasures by Russia may stop the ability of the major Russian gas shipper to make payments under its contractual obligations to N4G is substantially higher than previously, given the volatile geopolitical situation.

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 (Caa2 negative), 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.

Russia's invasion of Ukraine, which started on 24 February 2022, has led to sovereign rating actions, and subsequently downgrades of Russian non-financial corporates, including the Russian gas shipper on 10 March. The weakening of the credit profile of the major Russian gas shipper reflects Moody's view of a significantly increased risk of default which may include trade-related obligations.

Nevertheless, up to today, gas flows from Russia have continued uninterrupted and the Russian shipper has honoured its contractual payment obligations to N4G. Given that N4G's gas transportation network is located centrally in Europe, Moody's expects that in case of a cessation of gas flows from Russia or a disruption of capacity payments by the Russian shipper, or both, the company could replace part but not all of the business with the Russian shipper with alternative bookings, but these may not fully compensate the revenues coming from the major Russian gas shipper.

As a result of the elevated risk that revenues may reduce materially, N4G is exposed to the risk of markedly weaker financial leverage metrics. However, Moody's acknowledges the owners' commitment to suspend dividends and to evaluate further support measures, if required, as stated in a company press release on 17 March [1].

While an immediate stop of gas imports from Russia into Europe is currently not Moody's baseline scenario, the evolution of the current geopolitical situation is highly uncertain and could have materially adverse implications for the gas trade between Russia and the EU, hence the ratings remain on review for downgrade.

The review will focus on (1) the evolution of the geopolitical situation, including decisions, if any, around further of sanctions and their impact on N4G's cash flow, liquidity and business risk profile; (2) the evolution of the EU's energy policy, in particular its plans for reducing energy dependence on Russia; as well as (3) any credit

enhancing measures that may become available from shareholders to support the company's credit profile, if required.

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

Given the review for downgrade, an upgrade of N4G's ratings would require greater visibility on the continued receipt of capacity payments from the Russian shipper into the medium term, or its replacement with bookings from alternative shippers with a solid credit profile; or tangible external credit support; or a combination of these. The ratings could be confirmed if N4G continues to receive due capacity payments under the long-term transit contracts and there was greater visibility as to their continuation than currently; or if the company obtains adequate support from its owners or other stakeholders to offset any further deterioration of its credit profile.

N4G's ratings could be downgraded if capacity payments to the company were, or were expected to be, discontinued or materially delayed, for example due to sanctions, resulting in material pressure on its liquidity and financial profile, without adequate replacement through new bookings or external credit support.

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.

LIST OF AFFECTED RATINGS

Issuer: NET4GAS, s.r.o

Assignments:

...LT Corporate Family Rating, Assigned Ba2, Placed On Review for Downgrade

...Probability of Default Rating, Assigned Ba2-PD, Placed on Review for Downgrade

Downgrades:

...Senior Unsecured Regular Bond/Debenture, Downgraded to Ba2 from Baa2; Placed On Review for further Downgrade

Withdrawals:

...LT Issuer Rating, Withdrawn, previously rated Baa2, previously Placed On Review for Downgrade

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.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

For ratings issued on a program, series, category/class of debt or security this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series, category/class of debt, security or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the

rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moody.com.

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this credit rating action, and whose ratings may change as a result of this credit rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

The ratings have been disclosed to the rated entity or its designated agent(s) and issued with amendment resulting from that disclosure.

These ratings are solicited. Please refer to Moody's Policy for Designating and Assigning Unsolicited Credit Ratings available on its website www.moody.com.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at http://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_1288235.

The Global Scale Credit Rating on this Credit Rating Announcement was issued by one of Moody's affiliates outside the UK and is endorsed by Moody's Investors Service Limited, One Canada Square, Canary Wharf, London E14 5FA under the law applicable to credit rating agencies in the UK. Further information on the UK endorsement status and on the Moody's office that issued the credit rating is available on www.moody.com.

REFERENCES/CITATIONS

[1] NET4GAS Press release, 17-Mar-2022 (https://www.net4gas.cz/files/0press-releases/en_ii.pdf)

Please see www.moody.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the ratings tab on the issuer/entity page on www.moody.com for additional regulatory disclosures for each credit rating.

Mark Remshardt
Vice President - Senior Analyst
Infrastructure Finance Group
Moody's Deutschland GmbH
An der Welle 5
Frankfurt am Main, 60322
Germany
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Andrew Blease
Associate Managing Director
Infrastructure Finance Group
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Releasing Office:
Moody's Deutschland GmbH
An der Welle 5
Frankfurt am Main, 60322
Germany
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

© 2022 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S CREDIT RATINGS AFFILIATES ARE THEIR CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MATERIALS, PRODUCTS, SERVICES AND INFORMATION PUBLISHED BY MOODY'S (COLLECTIVELY, "PUBLICATIONS") MAY INCLUDE SUCH CURRENT OPINIONS. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT OR IMPAIRMENT. SEE APPLICABLE MOODY'S RATING SYMBOLS AND DEFINITIONS PUBLICATION FOR INFORMATION ON THE TYPES OF CONTRACTUAL FINANCIAL OBLIGATIONS ADDRESSED BY MOODY'S CREDIT RATINGS. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS, NON-CREDIT ASSESSMENTS ("ASSESSMENTS"), AND OTHER OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. AND/OR ITS AFFILIATES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS, ASSESSMENTS AND OTHER OPINIONS AND PUBLISHES ITS PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS, AND PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS OR PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT INTENDED FOR USE BY ANY PERSON AS A BENCHMARK AS THAT TERM IS DEFINED FOR REGULATORY PURPOSES AND MUST NOT BE USED IN ANY WAY THAT COULD RESULT IN THEM BEING CONSIDERED A BENCHMARK.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing its Publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or

the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY CREDIT RATING, ASSESSMENT, OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any credit rating, agreed to pay to Moody's Investors Service, Inc. for credit ratings opinions and services rendered by it fees ranging from \$1,000 to approximately \$5,000,000. MCO and Moody's Investors Service also maintain policies and procedures to address the independence of Moody's Investors Service credit ratings and credit rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold credit ratings from Moody's Investors Service and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moodys.com under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any credit rating, agreed to pay to MJKK or MSFJ (as applicable) for credit ratings opinions and services rendered by it fees ranging from JPY100,000 to approximately JPY550,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.