FitchRatings

Corporates
Utilities - Non US
Czech Republic

NET4GAS, s.r.o.

The two-notch upgrade of NET4GAS, s.r.o.'s Long-Term Issuer Default Rating (IDR) in December 2024 reflects the company's improving Standalone Credit Profile (SCP) in terms of business profile and capital structure. The business mix has transitioned into a pure regulated network that merits a higher debt capacity, with no exposure to the gas transit business.

Moreover, Fitch Ratings believes the price determination for 2025 will allow the company to reduce its funds from operations (FFO) net leverage to 5.7x, from an expected 6.4x in 2024, and generate positive free cash flow (FCF).

The Positive Outlook reflects our expectation of further deleveraging in the sixth regulatory period (RP6) for 2026-2030 to below our revised positive sensitivity of 6.3x, assuming that the final determination for the period is broadly in line with the consultation document.

Key Rating Drivers

Strong SCP Improvement: The price determination for 2025 has been positive for NET4GAS's credit profile and we expect a supportive final decision for RP6. This should lead to FFO net leverage of around 5.5x over 2025-2026, versus 6.7x in our prior forecasts. We also expect its regulatory asset base (RAB) to expand significantly to more than CZK33 billion, which is closer to its book value of CZK42 billion and translates into a moderate net debt/RAB of below 70%.

In our updated rating case for 2024-2028, we now expect NET4GAS´s total revenues to average CZK5.7 billion, 10% higher than our prior forecast. Importantly, the revenue is now solely derived from regulated network operations that have low business risk, in contrast to our prior forecast of 20% revenues being sourced from the higher-risk international gas transit business.

Supportive Single Revenue Cap Model: We now see NET4GAS as a pure gas transmission network operator with stable and predictable revenues and negligible volume risk. Starting from the 2025 tariff determination, both gas transport and transit activities are now remunerated under a framework that is akin to a single revenue cap model.

The consultation document for RP6 also confirms the single revenue cap regime post-2025, where a shortfall or surplus in transit volumes would be allocated to a regulatory account, which would be neutral to regulated revenues over the RP. The improved business profile led us to relax the company's rating sensitivities.

Capital Structure to Improve: Over the next two years, we expect NET4GAS to sharply reduce its gross debt with the repayment of CZK12 billion of maturities in 2025-2026 by using its own cash reserves. We also expect the company to refinance its remaining CZK4 billion debt due in the same period with new long-term credit facilities. The debt reduction is credit-positive and mirrors the reduced expected EBITDA at CZK4.2billion on average in our forecasts, versus the CZK7.3 billion expected before Russia's invasion of Ukraine.

Upside from RP6: If the remuneration for RP6 is approved by the regulator as presented in the consultation document, we project annual FFO of around CZK3 billion and pre-dividend FCF on average at CZK2 billion across the new regulatory period. This would represent a substantial improvement on our prior forecasts and would allow a gradual deleveraging to below the revised positive sensitivity of 6.3x FFO net leverage. The deleveraging would also depend on NET4GAS's new dividend policy.

Ratings

NET4GAS, s.r.o.

Long-Term IDR	BBB-
Senior Unsecured Debt - Long-Term Rating	BBB

Outlooks

Long-Term Foreign-Currency IDR	Positive

Click here for the full list of ratings

ESG and Climate

Highest ESG Relevance Scores

Environmental	3
Social	3
Governance	3

2035 Climate Vulnerability Signal: 45

Applicable Criteria

Corporate Rating Criteria (December 2024)

Corporate Recovery Ratings and Instrument Ratings Criteria (August 2024)

Sector Navigators – Addendum to the Corporate Rating Criteria (June 2024)

Related Research

Global Corporates Macro and Sector Forecasts

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Standalone Approach: We rate NET4GAS based on its SCP, due to weak links with its stronger Czech parent, the state-owned electricity transmission system operator (TSO) CEPS, as NET4GAS has no legal ties to CEPS, which does not guarantee any NET4GAS's debt, and there is no cross-default language related to NET4GAS under CEPS's debt documentation. Operational and strategic links are also weak, in our view, due to limited opportunities for synergies and joint value creation. However, we could revisit the assessment once we have long-term visibility over CEPS's stance towards the company.

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 deem reliable.

Financial Summary

(CZKm)	2021	2022	2023	2024E	2025F	2026F
EBITDA	8,813	11,266	1,825	3,821	4,080	4,268
FFO	7,378	8,860	164	2,580	2,937	3,029
FCF after acquisitions and divestitures	-393	5,332	-727	1,595	1,577	1,979
FFO interest coverage (x)	11.7	6.8	0.7	2.5	3.4	4.0
FFO net leverage (x)	4.0	2.9	19.3	6.4	5.7	5.1

F = Forecast, E = Estimate
Source: Fitch Ratings, Fitch Solutions

Rating Derivation Relative to Peers

Following its transition to become a regulated gas TSO under the single revenue cap model, NET4GAS's closest peer is the large Czech gas distributor Czech Gas Networks Investments S.a r.l (CGNI; BBB/Rating Watch Positive), as they share the same operating environment, regulator and supportive regulations. On the other hand, Fitch sees a slightly higher debt capacity for CGNI (6.7x negative sensitivity at BBB versus 6.3x for NET4GAS), given CGNI's longer record of fully regulated revenues.

Compared with central and eastern European gas distributor peer, SPP - distribucia, a.s. (SPPD; A-/Stable), NET4GAS has a higher debt capacity, benefiting from more mature regulations. However, SPPD's conservative capital structure with an average FFO net leverage below 2.5x explains its higher 'a' 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 *Parent and Subsidiary Linkage (PSL) Rating Criteria.*

Romanian-based SNTGN TRANSGAZ SA (BBB-/Stable) has a less defensive business profile than NET4GAS. This is due to its material cash flow volatility stemming from large regulatory correction adjustments. However, Transgaz's expected FFO net leverage is much more conservative at an average of around 4.0x, ultimately resulting in the same rating as NET4GAS.

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. NET4GAS's leverage is similar to that forecast for Snam, and the rating differential is mostly explained by our view of lower business risk at the Italian operator.

Navigator Peer Comparison

	IDR/Outlook	Operating Environment	Management and Corporate Governance	Sector Positioning	Regulatory Environment	Asset Base	Operational Profile	Profitability	Financial Structure	Financial Flexibility
NET4GAS, s.r.o.	BBB-/Positive	a+	a-	bbb+	bbb+	bbb	a	bbb	bb+	bbb-
Czech Gas Networks Investments S.a r.l	BBB/RWP	a+	bbb	a-	bbb+	bbb+	a	bbb	bb+	bbb+
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	Financial Structure	Financial Flexibility
NET4GAS, s.r.o.	BBB-/Positive	+5	+3	+2	+2	+1	+4	+1	-1	0
Czech Gas Networks Investments S.a r.l	BBB/RWP	+4	0	+2	+1	+1	+3	0	-2	+1
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	-1

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 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 7x and FFO interest coverage below 4.0x

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

- Clear commitment towards a financial policy that is coherent with an FFO net leverage below 6.3x, coupled with RP6 tariffs being aligned with expectations and 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 PSL Criteria or GRE Criteria

Liquidity and Debt Structure

We forecast NET4GAS's cash on balance sheet at more than CZK10.5 billion at end-2024. This, together with expected positive FCF generation of more than CZK1.5 billion in 2025, is more than sufficient to cover the almost CZK10 billion in financial debt maturities next year.

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.

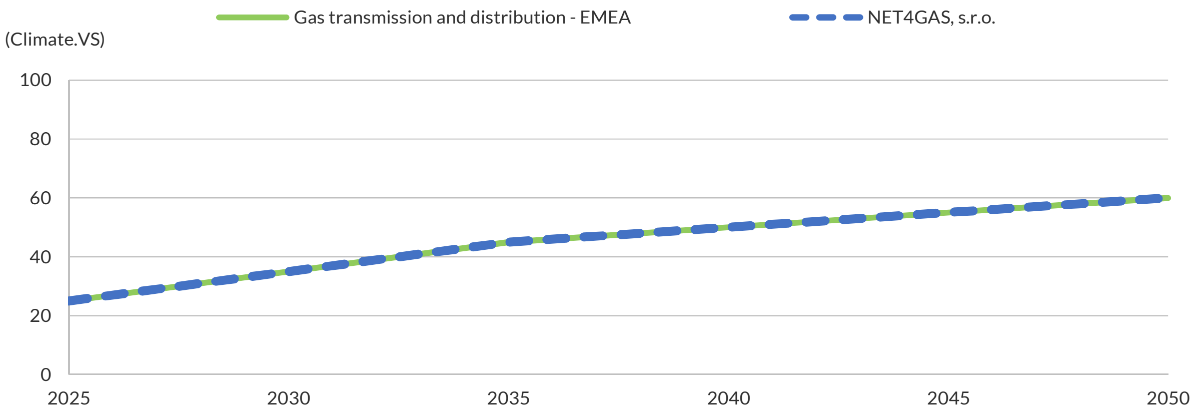
Climate Vulnerability Considerations

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. For more detailed, sector-specific information on how Fitch perceives climate-related transition risks, see Climate Vulnerability Signals for Non-Financial Corporate Sectors.

The FY23 revenue-weighted Climate. VS for NET4GAS for 2035 is 45 out of 100, which is in line with the signal for gas transmission and distribution sector.

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 the Czech Republic, which underpins the visibility of NET4GAS's regulated revenue.

Climate.VS Evolution
As of 31 December 2024



Source: Fitch Ratings

Liquidity and Debt Maturities

Liquidity Analysis

(CZKm)	2024E	2025F	2026F
Available liquidity			
Beginning cash balance	8,953	10,548	2,464
Rating case FCF after acquisitions and divestitures	1,595	1,577	1,979
Total available liquidity (A)	**10,548**	**12,125**	**4,443**
Liquidity uses			
Debt maturities	—	-9,661	-5,184
Total liquidity uses (B)	**—**	**-9,661**	**-5,184**
Liquidity calculation			
Ending cash balance (A+B)	10,548	2,464	-741
Revolver availability	—	—	—
Ending liquidity	**10,548**	**2,464**	**-741**
Liquidity score (x)	Not meaningful	1.3	0.9

F = Forecast, E = Estimate
Source: Fitch Ratings, Fitch Solutions, NET4GAS, s.r.o.

Scheduled Debt Maturities

(CZKm)	31 Dec 23
2024	—
2025	9,661
2026	5,184
2027	—
Thereafter	18,402
Total[a]	**33,247**

[a] Excluding EUR1.1 billion of cross-currency swap liabilities
Source: Fitch Ratings, Fitch Solutions, NET4GAS, s.r.o.

Key Assumptions

Fitch's Key Assumptions within our Rating Case for the Issuer:

- Revenues in 2025 based on the price determination, and in 2026-2028 based on the consultation paper for RP6 published by the regulator
- Fitch-defined EBITDA to average CZK4.2 billion a year until 2028
- Broadly neutral working capital over 2025-2028
- Annual capex of CZK1.2 billion until 2028
- Cash taxes on average at 27% of pretax profit until 2028
- Cost of debt to average 4.3% until 2028
- Repayment of CZK10 billion in debt maturities in 2025 and CZK6 billion in 2026, largely with NET4GAS's expected own cash of CZK12 billion and refinancing the remaining amount
- No dividend over 2024-2026. Dividends to be reinstated in 2027 at a level commensurate with annual net income

Financial Data

(CZKm)	2021	2022	2023	2024E	2025F	2026F
Summary income statement						
Gross revenue	10,373	12,950	3,005	5,024	5,554	5,873
Revenue growth (%)	3.4	24.8	-76.8	67.2	10.5	5.7
EBITDA before income from associates	8,813	11,266	1,825	3,821	4,080	4,268
EBITDA margin (%)	85.0	87.0	60.7	76.1	73.5	72.7
EBITDA after associates and minorities	8,813	11,266	1,825	3,821	4,080	4,268
EBIT	6,309	8,800	-690	1,348	1,565	1,813
EBIT margin (%)	60.8	68.0	-23.0	26.8	28.2	30.9
Gross interest expense	-780	-1,664	-1,987	-1,498	-1,143	-1,006
Pretax income including associate income/loss	4,696	7,685	-993	-158	591	900
Summary balance sheet						
Readily available cash and equivalents	1,352	6,812	8,953	10,548	2,184	1,867
Debt	33,782	35,014	34,344	34,344	24,403	22,107
Net debt	32,430	28,202	25,391	23,796	22,219	20,240
Summary cash flow statement						
EBITDA	8,813	11,266	1,825	3,821	4,080	4,268
Cash interest paid	-686	-1,450	-2,013	-1,498	-1,143	-1,006
Cash tax	-806	-1,454	8	-37	-101	-239
Dividends received less dividends paid to minorities (inflow/outflow)	—	—	—	—	—	—
Other items before FFO	46	68	-515	-83	-50	-46
FFO	7,378	8,860	164	2,580	2,937	3,029
FFO margin (%)	71.1	68.4	5.5	51.4	52.9	51.6
Change in working capital	-1,119	272	139	-87	15	—
CFO (Fitch-defined)	6,259	9,132	303	2,493	2,952	3,029
Total non-operating/nonrecurring cash flow	—	—	—	—	—	—
Capex	-2,669	-3,800	-1,030	—	—	—
Capital intensity (capex/revenue) (%)	25.7	29.3	34.3	—	—	—
Common dividends	-3,984	—	—	—	—	—
FCF	-394	5,332	-727	—	—	—
FCF margin (%)	-3.8	41.2	-24.2	—	—	—
Net acquisitions and divestitures	1	—	—	—	—	—
Other investing and financing cash flow items	44	31	2,953	—	—	—
Net debt proceeds	6,325	97	-85	—	-9,941	-2,296
Net equity proceeds	-6,850	—	—	—	—	—
Total change in cash	-874	5,460	2,141	1,595	-8,364	-317
Calculations for forecast publication						
Capex, dividends, acquisitions and other items before FCF	-6,652	-3,800	-1,030	-898	-1,375	-1,050
FCF after acquisitions and divestitures	-393	5,332	-727	1,595	1,577	1,979
FCF margin after net acquisitions (%)	-3.8	41.2	-24.2	31.7	28.4	33.7
Gross Leverage ratios (x)						
EBITDA leverage	3.8	3.1	18.8	9.0	6.0	5.2
FFO leverage	4.2	3.5	26.1	9.3	6.2	5.6
(CFO-capex)/debt	10.6	15.2	-2.1	4.6	6.5	9.0

(CZKm)	2021	2022	2023	2024E	2025F	2026F
Net Leverage ratios (x)						
EBITDA net leverage	3.7	2.5	13.9	6.2	5.4	4.7
FFO net leverage	4.0	2.9	19.3	6.4	5.7	5.1
(CFO-capex)/net debt (%)	11.1	18.9	-2.9	6.7	7.1	9.8
Coverage ratios (x)						
EBITDA interest coverage	12.8	7.8	0.9	2.6	3.6	4.2
FFO interest coverage	11.7	6.8	0.7	2.5	3.4	4.0
FFO fixed-charge coverage	11.4	6.8	0.7	2.5	3.4	4.0

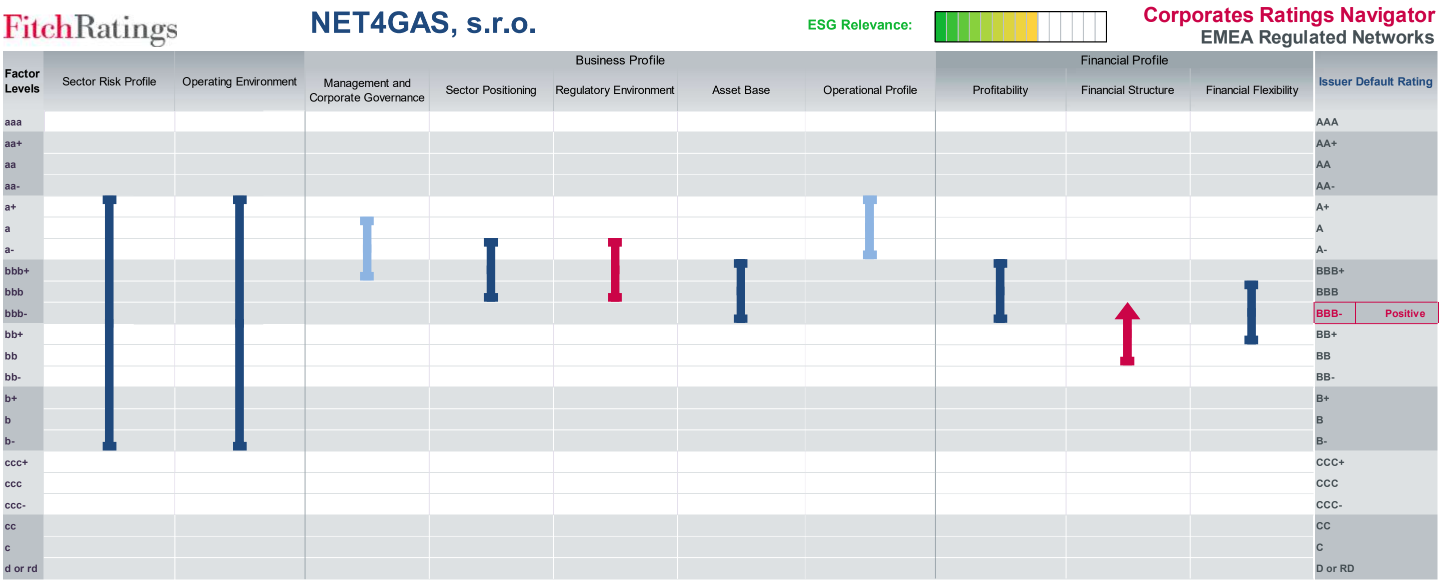
CFO – Cash flow from operations

F = Forecast, E = Estimate
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

aa-	Economic Environment	a	Strong combination of countries where economic value is created and where assets are located.
a+	Financial Access	a	Strong 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

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

a	Operation Type	a	National or regional monopolies, transmission or distribution asset owners.
a-	Non-Regulated Earnings (% of Total Earnings)	a	up to 10%
bbb+			
bbb			
bbb-			

Regulatory Environment

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		n.a.
bbb+	Cost and Investment Recovery	a	Tariff setting with challenge mechanisms that may marginally limit cost and investment recovery, with little regulatory lag.
bbb	Volume and Price Risk	a	High insulation from price and volume risk, little revenue under-recovery.
bbb-			

Asset Base

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

aa-	Performance Measures	a	Key performance measures in line with or above sector average and/or regulatory target.
a+	Counterparty Risk	a	Low counterparty risk; high collection rates for water suppliers. Economy of area served provides structurally stable background.
a			
a-			
bbb+			

Profitability

a-	Return on Capital	bbb	Return on capital comparable with 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.
bbb-			
bb+			

Financial Structure

bbb	FFO Leverage	bb	7.0x
bbb-	FFO Net Leverage	bb	6.5x
bb+	Adjusted Net Debt/Asset Base (or Regulated Asset Base)	bbb	70%
bb	Cash PMICR		n.a.
bb-	Nominal PMICR		n.a.

Financial Flexibility

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	bbb	3.5x
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 13 ESG potential rating drivers

- Emissions from operations
- Energy and fuel use in operations; entities' financial targets for losses/shrinkage
- Water usage in operations; water utilities' financial targets for water quality, leakage and usage
- Impact of waste including pollution incidents; discharge compliance; sludge disposal
- 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

Showing top 6 issues

			Overall ESG
key driver	0	issues	5
driver	0	issues	4
potential driver	13	issues	3
not a rating driver	1	issues	2
	0	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 13 ESG potential rating drivers

- NET4GAS, s.r.o. has exposure to emissions regulatory risk but this has very low impact on the rating.
- NET4GAS, s.r.o. has exposure to energy regulatory risk but this has very low impact on the rating.
- NET4GAS, s.r.o. has exposure to water management risk but this has very low impact on the rating.
- NET4GAS, s.r.o. has exposure to waste & impact management risk but this has very low impact on the rating.
- 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.

Showing top 6 issues

			ESG Relevance to Credit Rating
key driver	0	issues	5
driver	0	issues	4
potential driver	13	issues	3
not a rating driver	1	issues	2
	0	issues	1

Environmental (E) Relevance Scores

General Issues	E Score	Sector-Specific Issues	Reference	E Relevance
GHG Emissions & Air Quality	3	Emissions from operations	Profitability and Cash Flow	5
Energy Management	3	Energy and fuel use in operations; entities' financial targets for losses/shrinkage	Profitability and Cash Flow	4
Water & Wastewater Management	3	Water usage in operations; water utilities' financial targets for water quality, leakage and usage	Operations; Profitability and Cash Flow; Financial Structure; Financial Flexibility	3
Waste & Hazardous Materials Management; Ecological Impacts	3	Impact of waste including pollution incidents; discharge compliance; sludge disposal	Operations; Profitability and Cash Flow; Financial Flexibility	2
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	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.

Social (S) Relevance Scores

General Issues	S Score	Sector-Specific Issues	Reference	S Relevance
Human Rights, Community Relations, Access & Affordability	3	Product affordability and access	Profitability and Cash Flow; Regulatory Environment	5
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Quality and safety of products and services; data security	Profitability and Cash Flow	4
Labor Relations & Practices	3	Impact of labor negotiations and employee (dis)satisfaction	Profitability and Cash Flow; Financial Structure; Financial Flexibility	3
Employee Wellbeing	2	Worker safety and accident prevention	Financial Structure; Financial Flexibility	2
Exposure to Social Impacts	3	Social resistance to major projects that leads to delays and cost increases	Operations; Profitability and Cash Flow	1

Governance (G) Relevance Scores

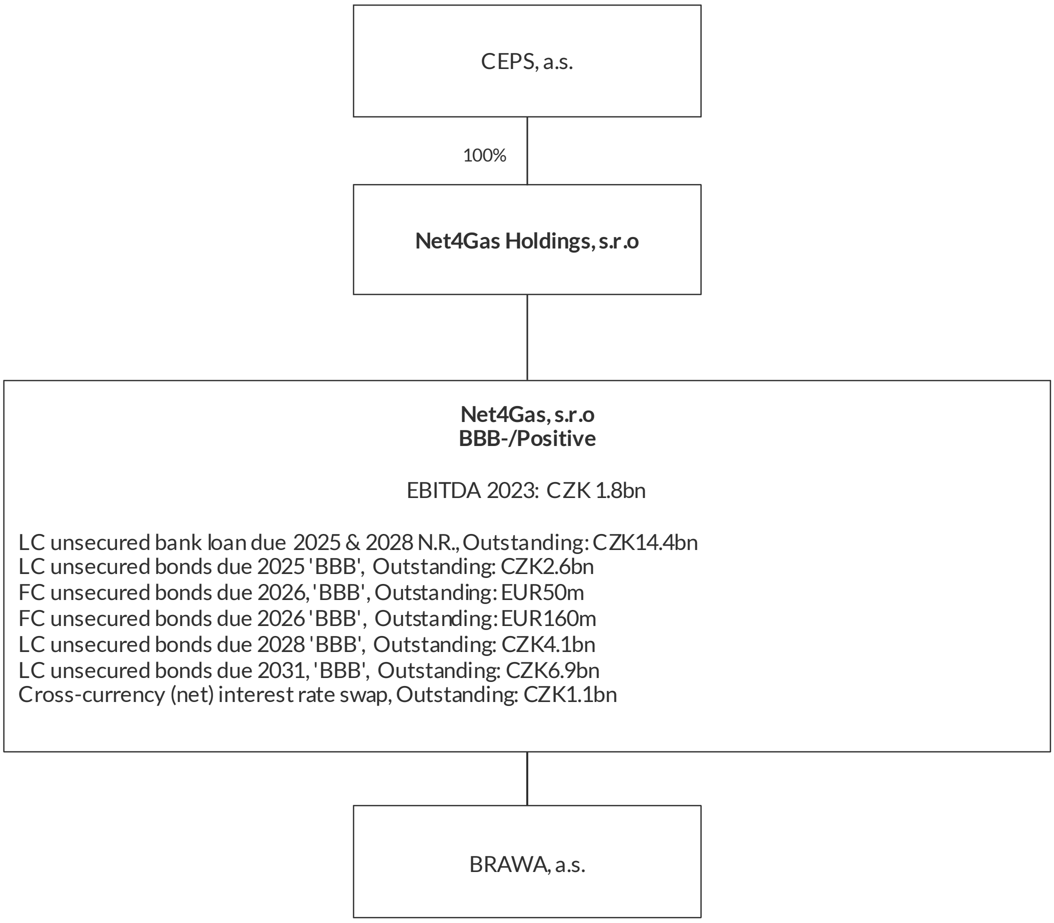
General Issues	G Score	Sector-Specific Issues	Reference	G Relevance
Management Strategy	3	Strategy development and implementation	Management and Corporate Governance	5
Governance Structure	3	Board independence and effectiveness; ownership concentration	Management and Corporate Governance	4
Group Structure	3	Complexity, transparency and related-party transactions	Management and Corporate Governance	3
Financial Transparency	3	Quality and timing of financial disclosure	Management and Corporate Governance	2
				1

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



Source: Fitch Ratings, Fitch Solutions, NET4GAS, s.r.o. Financials as of December 2023.

Peer Financial Summary

Company	Issuer Default Rating	Financial statement date	EBITDA (EURm)	FFO (EURm)	FCF (EURm)	FFO interest coverage (x)	FFO net leverage (x)
NET4GAS, s.r.o.	BBB-						
	BB-	2023	74	7	-30	0.7	19.3
	BB+	2022	467	367	221	6.8	2.9
	BBB	2021	351	294	-16	11.7	4.0
SPP - distribucia, a.s.	A-						
	BBB+	2023	334	256	88	38.3	1.0
	BBB+	2022	348	280	87	54.6	1.2
	A-	2021	340	262	162	20.6	1.6
SNTGN TRANSGAZ SA	BBB-						
	BBB-	2023	122	87	3	4.3	3.2
	BBB-	2022	118	77	-56	5.2	3.8
	BBB-	2021	97	88	-58	19.9	3.5
Snam S.p.A.	BBB+						
	BBB+	2023	2,183	2,120	-2,057	10.6	5.9
	BBB+	2022	2,187	1,698	2,314	14.8	6.2
	BBB+	2021	2,237	1,909	-391	17.4	6.9
REN - Redes Energeticas Nacionais, SGPS, S.A.	BBB						
	BBB	2023	504	436	-693	7.6	5.5
	BBB	2022	477	355	326	9.7	5.2
	BBB	2021	454	345	439	9.7	6.1
eustream, a.s.	BBB						
	BBB	2023	131	103	27	3.7	8.9
	BBB	2022	478	343	173	11.7	2.4
	A-	2021	547	350	20	11.9	2.7

Source: Fitch Ratings, Fitch Solutions

Fitch Adjusted Financials

(CZKm as of 31 December 2023)	Notes and formulas	Standardised values	Cash adjustment	Lease treatment	Other adjustments	Sum of adjustments	Adjusted values
Income statement summary							
Revenue		3,005	—	—	—		3,005
EBITDA	(a)	1,972	—	-37	-110	-147	1,825
Depreciation and amortization		-2,543	—	28	—	-28	-2,515
EBIT		-571	—	-9	-110	-119	-690
Balance sheet summary							
Debt	(b)	33,824	—	—	520	520	34,344
Of which other off-balance-sheet debt		—	—	—	—		—
Lease-equivalent debt		—	—	—	—		—
Lease-adjusted debt		33,824	—	—	520	520	34,344
Readily available cash and equivalents	(c)	4,453	4,500	—	—	4,500	8,953
Not readily available cash and equivalents		—	—	—	—		—
Cash flow summary							
EBITDA	(a)	1,972	—	-37	-110	-147	1,825
Dividends received from associates less dividends paid to minorities	(d)	—	—	—	—		—
Interest paid	(e)	-2,013	—	—	—		-2,013
Interest received	(f)	859	—	—	—		859
Preferred dividends paid	(g)	—	—	—	—		—
Cash tax paid		8	—	—	—		8
Other items before FFO		-634	—	9	110	119	-515
FFO	(h)	192	—	-28	—	-28	164
Change in working capital		139	—	—	—		139
CFO	(i)	331	—	-28	—	-28	303
Non-operating/nonrecurring cash flow		—	—	—	—		—
Capex	(j)	-1,030	—	—	—		-1,030
Common dividends paid		—	—	—	—		—
FCF		-699	—	-28	—	-28	-727
Gross leverage (x)							
EBITDA leverage	b / (a+d)	17.2	—	—	—		18.8
FFO leverage	b / (h-e-f-g)	25.1	—	—	—		26.1
(CFO-capex)/debt (%)	(i+j) / b	-2.1	—	—	—		-2.1
Net leverage (x)							
EBITDA net leverage	(b-c) / (a+d)	14.9	—	—	—		13.9
FFO net leverage	(b-c) / (h-e-f-g)	21.8	—	—	—		19.3
(CFO-capex)/net debt (%)	(i+j) / (b-c)	-2.4	—	—	—		-2.9
Coverage (x)							
EBITDA interest coverage	(a+d) / (-e)	1.0	—	—	—		0.9
FFO interest coverage	(h-e-f-g) / (-e-g)	0.7	—	—	—		0.7

CFO – Cash flow from operations
Note: 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.
Debt in the standardised values column excludes lease liabilities of CZK245 million.
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.