

Czech Gas Networks Investments S.a r.l

Ratings

Rating Type	Rating	Outlook	Last Rating Action
Long-Term IDR	BBB	Stable	Affirmed 4 Oct 22

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The affirmation reflects Czech Gas Networks Investments S.a r.l's (CGNI) 2022-2025 regulatory visibility and supportive regulatory framework, which we expect would allow the company to maintain stable operating cash flow generation in the current uncertain environment of potential gas curtailments, increased counterparty risk, high inflation and rising interest rates.

The Stable Outlook reflects our expectation that CGNI will manage dividends to maintain its funds from operations (FFO) net leverage below 6.7x, which is consistent with the company's public intention to maintain the rating.

We expect limited impact on CGNI from approved windfall taxes to be implemented for 2023-2025 on energy firms in the Czech Republic.

Key Rating Drivers

Solid Business Profile, Regulatory Visibility: CGNI's 'BBB' IDR reflects its solid business profile as a concessionaire (with no expiry) and operator of the largest gas distribution network in the Czech Republic with an 81% market share followed by Prazska Plynarenská Distribuce and E.ON. Gas distribution is fully regulated and in its fifth regulatory period (RP5), which provides cash flow visibility up to 2025.

We expect CGNI's EBITDA to average around CZK9.3 billion during 2022-2025, based on its regulatory asset base (RAB) converging with its net asset value (NAV), its 50-50 profit-sharing mechanism of extra efficiencies with end-users, and a nominal pre-tax rate of return set at 6.43%.

Resilient Against Severe Gas Curtailments: CGNI's regulatory framework shields the company from a potential reduction in distributed volumes arising from warmer temperatures or a lack of supply. Regulatory compensation through higher tariffs has a two-year time lag, and if there were a state of emergency, new amendments to the Czech Energy Act would allow distribution system operators (DSOs) to ask for compensation in the same year directly from the state budget for any capacity fees lost.

Such amendments would also smooth the cash flow volatility arising from the risk of gas supply curtailments to Czech industrial sectors, which account for around 40% of GCNI's revenues.

No Impact from High Gas Prices: We do not expect high gas prices to depress CGNI's operating profitability, as procurement costs for network losses are included in tariffs. Moreover, CGNI has already purchased gas to cover network losses and its own consumption until end-2023. Higher procurement costs expected for 2023 will be underlined by higher tariffs, whose impact on customers may be offset by the sharing in line with regulatory guidelines the CZK2.7 billion overperformance buffer accumulated by CGNI in the past three years.

Inflation and Rising Rates Mitigated: Strong double-digit rises in inflation in the Czech Republic could be reasonably accommodated by CGNI. Allowed return is set on a nominal basis (although it cannot be updated in mid-RP5), although this implies that the RAB is not directly revaluated to reflect the inflation trend. Moreover, allowed operating spending is annually escalated to

Applicable Criteria

Corporate Rating Criteria (October 2022)
Corporates Recovery Ratings and Instrument Ratings Criteria (April 2021)

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account for wage and services cost inflation. Finally, more than 95% of CGNI's debt is at fixed rates or hedged, at 88% over the debt tenor, mitigating the risk of interest-rate rises.

RAB Convergence with NAV: Within the current regulatory period, CGNI's RAB is swiftly reconciled with its NAV, with an expected rise to CZK70 billion by 2025 (from almost CZK57 billion in 2021). However, in our view, the RAB still does not fairly reflect the value of the business, in contrast to other jurisdictions.

Counterparty Risk Tested: The rapid rise of commodity prices has caused financial distress for several gas suppliers in the Czech Republic, which culminated in the large Bohemia Energy default in 2021. This failure tested CGNI's advance payment mechanism, with resulting negligible to limited losses (no more than CZK5 million).

The bank guarantees or cash collateral posted by suppliers have been sufficient to cover CGNI's costs for the whole period in case of supplier default, which materially reduces counterparty risk for CGNI. In addition, the mechanism of 'supplier of last resort' has proved effective with no material bad debt resulting from supplier bankruptcies.

Leverage Structurally at Rating Limit: The pace of shareholder distributions will define CGNI's leverage. By Fitch's estimates, the group generates pre-dividend (and pre-shareholder loan interest) free cash flow (FCF) averaging around CZK2.5 billion a year, while distributions to shareholders (in all forms) - excluding the current temporary suspension due to current geopolitical risks - average CZK4.1 billion. This would result in average FFO net leverage of 6.7x during 2022-2026, with no headroom under our rating sensitivities.

Shareholder Commitment to Leverage Target: Fitch understands that the reference shareholder, Macquarie Infrastructure and Real Asset, and CGNI management intend to maintain the current rating, and that they retain all levers to achieve this leverage target.

Positive 2022 Trading: CGNI's 1H22 results and realised operating expenditure efficiencies still point to a full-year EBITDA of about CZK9.2 billion and pre-dividend FCF of CZK2.3 billion notwithstanding an expected double-digit contraction of distributed volumes from budgeted levels. Nevertheless, these are about the normal levels CGNI used to distribute before the Russia-Ukraine conflict. These results are broadly in line with Fitch's expectations.

Financial Summary

Czech Gas Networks Investments S.a.r.l

(CZKm)	Dec 20	Dec 21	Dec 22F	Dec 23F	Dec 24F
Operating EBITDA	8,931	10,238	9,226	8,704	9,615
Operating EBITDA margin (%)	61.2	67.9	64.9	55.2	57.7
Free cash flow	127	-13,055	-1,326	256	-5,457
FFO net leverage (x)	5.2	5.9	6.7	6.7	6.7
FFO interest coverage (x)	7.2	9.1	6.5	6.1	6.0

F - Forecast.

Source: Fitch Ratings, Fitch Solutions

Rating Derivation Relative to Peers

CGNI has a solid business profile and a similar debt capacity to that of large European peer E.ON SE (BBB+/Stable), whose rating differential is primarily driven by its more conservative capital structure (around 1.0x lower FFO net leverage). We believe the two companies benefit from similarly supportive regulations (ie Germany and Sweden vs. The Czech Republic), while E.ON's large exposure to supply and generation (around 20% of EBITDA) is mitigated by its unique diversification and size.

CGNI's business risk is higher than that of the Italian DSO Italgas S.p.A. (BBB+/Stable), due to better regulatory features in Italy, such as a longer record of fully independent regulation. CGNI's leverage is similar to that forecast for Italgas, and the rating differential is mostly explained by our view of lower business risk at the Italian operator.

We consider CGNI's business profile as more defensive than that of central and eastern European peer, SPP - distribucia, a.s. (BBB+/Negative; Standalone Credit Profile of 'a'). This is because the Czech regulatory system is well protected from volume risk and less exposed to political risk. However, SPPD's conservative capital structure with an average FFO net leverage below 3.0x mostly explains the rating differential in terms of SCP. SPP's IDR is capped at one notch above the consolidated credit profile of its immediate parent, SPPI, in line with our *Parent and Subsidiary Linkage Criteria*.

Navigator Peer Comparison

Issuer	Business profile										Financial profile			
	IDR/Outlook	Operating Environment	Management and Corporate Governance	Sector Positioning	Regulatory Environment	Asset Base	Operations	Profitability and Cash Flow	Financial Structure	Financial Flexibility				
Czech Gas Networks Investments S.a r.l	BBB/Sta	a+	bbb	a-	bbb+	a-	a	bbb	bb+	a				
E.ON SE	BBB+/Sta	aa	a-	bbb+	bbb+	a-	a-	bbb	bbb	bbb+				
e-netz Suedhessen AG	BBB+/Sta	aa-	bbb	bbb	bbb+	bbb+	a-	bbb	bbb+	bbb				
Italgas S.p.A.	BBB+/Sta	bbb+	a-	a-	a-	a-	a	bbb	bbb-	bbb+				
SPP - distribucia, a.s.	BBB+/RWN	a-	bbb+	a	bbb	a-	a-	a-	a+	bbb-				
Source: Fitch Ratings.														
Importance ■ Higher ■ Moderate ■ Lower														

Name	IDR/Outlook	Operating Environment	Management and Corporate Governance	Sector Positioning	Regulatory Environment	Asset Base	Operations	Profitability and Cash Flow	Financial Structure	Financial Flexibility
Czech Gas Networks Investments S.a r.l	BBB/Sta	4.0	0.0	2.0	1.0	2.0	3.0	0.0	-2.0	3.0
E.ON SE	BBB+/Sta	5.0	1.0	0.0	0.0	1.0	1.0	-1.0	-1.0	0.0
e-netz Suedhessen AG	BBB+/Sta	4.0	-1.0	-1.0	0.0	0.0	1.0	-1.0	0.0	-1.0
Italgas S.p.A.	BBB+/Sta	0.0	1.0	1.0	1.0	1.0	2.0	-1.0	-2.0	0.0
SPP - distribucia, a.s.	BBB+/RWN	1.0	0.0	2.0	-1.0	1.0	1.0	1.0	3.0	-2.0
Source: Fitch Ratings.										
■ Worse positioned than IDR ■ In line with IDR ■ Better positioned than IDR										

Rating Sensitivities

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

- FFO net leverage below 6.0x and FFO interest coverage above 5.1x on a sustained basis

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

- FFO net leverage above 6.7x or FFO interest coverage below 4.1x, over a sustained period, for example as a result of an upward revision to dividend policy
- Weakening business risk profile, as a consequence of a less predictable regulatory framework

Liquidity and Debt Structure

Adequate Liquidity: Liquidity is adequate, enhanced by no debt maturities until 2025 and, more recently, supported by the decision to temporarily suspend dividend distribution and shareholder-loan cash interest payment.

At end-June 2022, CGNI had around CZK4.4 billion of cash on balance sheet, moderate capex and revolving credit facilities of CZK1 billion (drawn for CZK500 million) and CZK500 million (fully undrawn), respectively. We expect CGNI to generate positive pre-dividend FCF over our forecast horizon to 2025.

ESG Considerations

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This 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. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

Liquidity and Debt Maturities

Czech Gas Networks Investments S.a r.l – Liquidity Analysis

(CZKm)	2022F	2023F	2024F
Available liquidity			
Beginning cash balance	1,376	50	306
Rating case FCF after acquisitions and divestitures	-1,326	256	-5,457
Total available liquidity (A)	50	306	-5,150
Liquidity uses			
Debt maturities	0	0	0
Total liquidity uses (B)	0	0	0
Liquidity calculation			
Ending cash balance (A+B)	50	306	-5,150
Revolver availability	1,000	1,000	1,000
Ending liquidity	1,050	1,306	-4,150
Liquidity score (x)	Not meaningful	Not meaningful	Not meaningful

F – Forecast

Source: Fitch Ratings, Fitch Solutions, Czech Gas Networks Investments S.a.r.l

Scheduled debt maturities (EURm)	Original 31 Dec 21
2022	0
2023	0
2024	0
Thereafter	56,517
Total	56,517

Source: Fitch Ratings, Fitch Solutions, Czech Gas Networks Investments S.a.r.l

Key Assumptions

- Revenues based on the current RP5 regulatory framework, including accelerated RAB revaluation
- Annual EBITDA on average around CZK9.3 billion in 2022-2025
- Average annual capex of CZK4.9 billion in 2022-2025
- Average dividends at around CZK4.1 billion for 2022-2025

Financial Data

Czech Gas Networks Investments S.a.r.l (CZKmn)					
	Historical		Forecast		
	Dec 2020	Dec 2021	Dec 2022F	Dec 2023F	Dec 2024F
Summary Income Statement					
Gross Revenue	14,594	15,069	14,221	15,775	16,654
Revenue Growth (%)	242.6	3.3	-5.6	10.9	5.6
Operating EBITDA (Before Income from Associates)	8,931	10,238	9,226	8,704	9,615
Operating EBITDA Margin (%)	61.2	67.9	64.9	55.2	57.7
Operating EBITDAR	9,156	10,238	9,226	8,704	9,615
Operating EBITDAR Margin (%)	62.7	67.9	64.9	55.2	57.7
Operating EBIT	1,409	3,276	5,126	4,481	5,305
Operating EBIT Margin (%)	9.7	21.7	36.0	28.4	31.9
Gross Interest Expense	-1,916	-1,432	-1,290	-1,381	-1,546
Pretax Income (Including Associate Income/Loss)	-2,122	4,772	3,870	3,132	3,786
Summary Balance Sheet					
Readily Available Cash and Equivalents	1,741	1,376	1,378	1,635	1,725
Total Debt with Equity Credit	43,965	56,517	57,845	57,845	63,392
Total Adjusted Debt with Equity Credit	45,765	56,517	57,845	57,845	63,392
Net Debt with Equity Credit	42,224	55,141	56,467	56,211	61,668
Summary Cash Flow Statement					
Operating EBITDA	8,931	10,238	9,226	8,704	9,615
Cash Interest Paid	-1,134	-1,021	-1,290	-1,381	-1,546
Cash Tax	-732	-1,031	-797	-315	-409
Dividends Received Less Dividends Paid to Minorities (Inflow/(Out)flow)	0	0	0	0	0
Other Items Before FFO	-34	68	0	0	0
Funds Flow from Operations	7,031	8,260	7,161	7,029	7,676
FFO Margin (%)	48.2	54.8	50.4	44.6	46.1
Change in Working Capital	21	-311	-38	-54	30
Cash Flow from Operations (Fitch Defined)	7,052	7,949	7,123	6,975	7,706
Total Non-Operating/Nonrecurring Cash Flow	0	0			
Capex	-4,368	-4,531			
Capital Intensity (Capex/Revenue) (%)	29.9	30.1			
Common Dividends	-2,557	-16,473			
Free Cash Flow	127	-13,055			
Net Acquisitions and Divestitures	10	11			
Other Investing and Financing Cash Flow Items	-93	0	0	0	0
Net Debt Proceeds	771	12,679	1,328	0	5,547
Net Equity Proceeds	0	0	0	0	0
Total Change in Cash	815	-365	2	256	90
Leverage Ratios					
Total Net Debt with Equity Credit/Operating EBITDA (x)	4.7	5.4	6.1	6.5	6.4
Total Adjusted Debt/Operating EBITDAR (x)	5.0	5.5	6.3	6.6	6.6
Total Adjusted Net Debt/Operating EBITDAR (x)	4.8	5.4	6.1	6.5	6.4
Total Debt with Equity Credit/Operating EBITDA (x)	4.9	5.5	6.3	6.6	6.6
FFO Adjusted Leverage (x)	5.5	6.1	6.9	6.9	6.9
FFO Adjusted Net Leverage (x)	5.2	5.9	6.7	6.7	6.7
FFO Leverage (x)	5.4	6.1	6.9	6.9	6.9
FFO Net Leverage (x)	5.2	5.9	6.7	6.7	6.7
Calculations for Forecast Publication					
Capex, Dividends, Acquisitions and Other Items Before FCF	-6,915	-20,993	-8,449	-6,719	-13,163
Free Cash Flow After Acquisitions and Divestitures	137	-13,044	-1,326	256	-5,457
Free Cash Flow Margin (After Net Acquisitions) (%)	0.9	-86.6	-9.3	1.6	-32.8
Coverage Ratios					
FFO Interest Coverage (x)	7.2	9.1	6.5	6.1	6.0
FFO Fixed Charge Coverage (x)	6.2	9.1	6.5	6.1	6.0
Operating EBITDAR/Interest Paid + Rents (x)	6.7	10.0	7.2	6.3	6.2
Operating EBITDA/Interest Paid (x)	7.9	10.0	7.2	6.3	6.2
Additional metrics					
CFO-Capex/Total Debt with Equity Credit (%)	6.1	6.0	4.0	3.7	4.3
CFO-Capex/Total Net Debt with Equity Credit (%)	6.4	6.2	4.1	3.8	4.4

Source: Fitch Ratings, Fitch Solutions.

How to Interpret the Forecast Presented

The forecast presented 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.

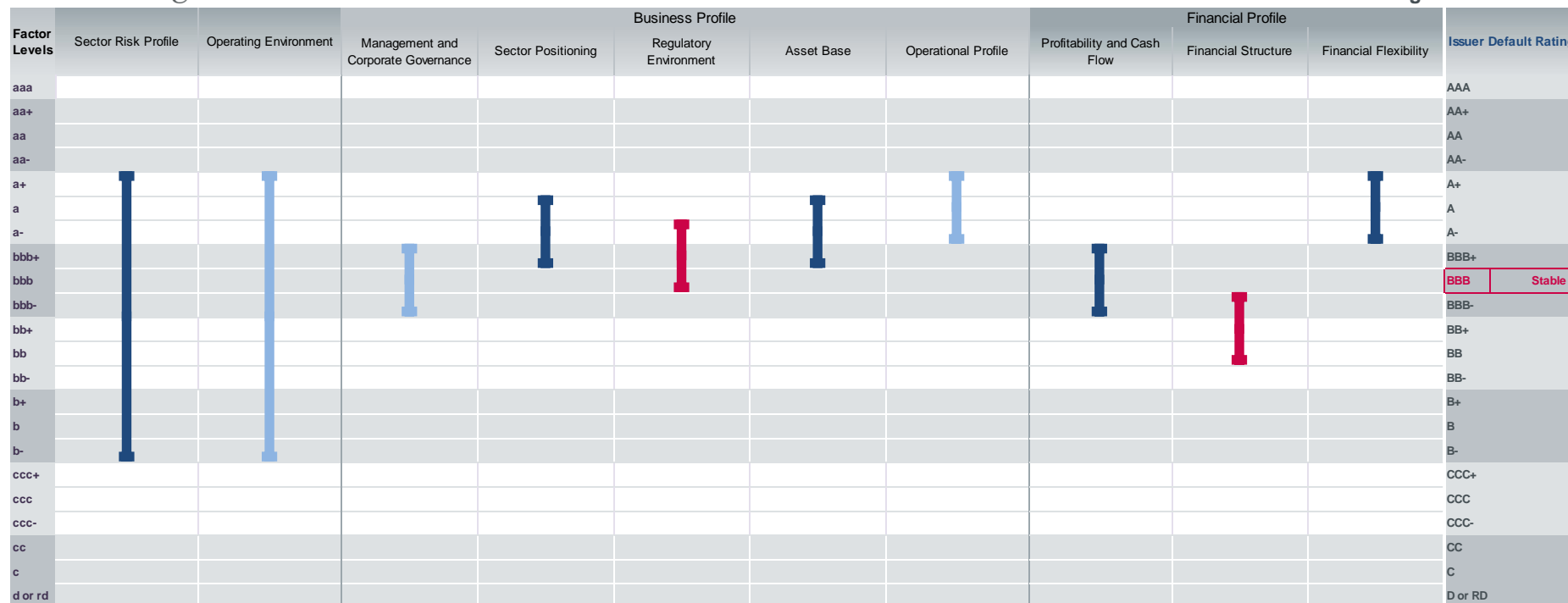
Ratings Navigator

Czech Gas Networks Investments S.a r.l

ESG Relevance:



Corporates Ratings Navigator
EMEA Regulated Networks



Bar Chart Legend:

Vertical Bars = Range of Rating Factor		Bar Arrows = Rating Factor Outlook	
Bar Colours = Relative Importance		↑	Positive
■	Higher Importance	↓	Negative
■	Average Importance	↕	Evolving
■	Lower Importance	□	Stable

Operating Environment

aa-	Economic Environment	a	Strong combination of countries where economic value is created and where assets are located.
a+	Financial Access	aa	Very strong combination of issuer-specific funding characteristics and the strength of the relevant local financial market.
b-	Systemic Governance	a	Systemic governance (eg rule of law, corruption, government effectiveness) of the issuer's country of incorporation consistent with 'a'.
ccc+			

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%
a-			
bbb+			
bbb			

Asset Base

a+	Diversification	bbb	Limited diversification by geography without regulatory diversification; regional utility.
a	Critical Mass	a	Critical mass in one regulated asset; does not affect efficiency of operations (cost base, customer base, key personnel).
a-	Asset Quality and Residual Life	a	High asset quality likely to benefit opex and capex requirements compared with peers. The residual life of regulatory assets is long.
bbb+			
bbb			

Profitability and Cash Flow

a-	Return on Capital	a	Return on capital at, or comfortably above, the regulatory benchmark.
bbb+	Volatility of Profitability	bbb	Stability and predictability of profit in line with utility peers.
bbb	Investment Cycle	bb	Investment cycle position and dividend policy leading to significantly negative free cash flow. Limited flexibility in smoothing capex plans.
bbb-			
bb+			

Financial Flexibility

aa-	Financial Discipline	a	Clear commitment to maintain a conservative policy with only modest deviations allowed.
a+	Liquidity	a	Very comfortable liquidity; no need to use external funding in the next 12 months even under a severe stress scenario. Well spread debt maturity schedule. Diversified sources of funding.
a	FFO Interest Coverage	a	4.5x
a-	FX Exposure	aa	No material FX mismatch.
bbb+	Dividend Cover		

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.

Management and Corporate Governance

a-	Management Strategy	a	Coherent strategy and good track record in implementation.
bbb+	Governance Structure	bbb	Good governance record but board effectiveness/independence less obvious. No evidence of abuse of power even with ownership concentration.
bbb	Group Structure	bbb	Some group complexity leading to somewhat less transparent accounting statements. No significant related-party transactions.
bbb-	Financial Transparency	bbb	Good-quality reporting without significant failings. Consistent with the average of listed companies in major exchanges.
bb+			

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-			

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+			

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)	b	90%
bb	Cash PMICR		
bb-	Nominal PMICR		

Credit-Relevant ESG Derivation

				Overall ESG	
Czech Gas Networks Investments S.a r.l has 9 ESG potential rating drivers				key driver	0 issues
➡ 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)				driver	0 issues
➡ Product affordability and access				potential driver	9 issues
➡ Quality and safety of products and services; data security					
➡ Impact of labor negotiations and employee (dis)satisfaction					
➡ Social resistance to major projects that leads to delays and cost increases				not a rating driver	3 issues
➡ Governance is minimally relevant to the rating and is not currently a driver.					2 issues
					1 issue

For further details on Credit-Relevant ESG scoring, see page 3.

Credit-Relevant ESG Derivation

Czech Gas Networks Investments S.a r.l has 9 ESG potential rating drivers

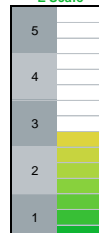
- ➡ Czech Gas Networks Investments S.a r.l has exposure to extreme weather events but this has very low impact on the rating.
- ➡ Czech Gas Networks Investments S.a r.l has exposure to access/affordability risk but this has very low impact on the rating.
- ➡ Czech Gas Networks Investments S.a r.l has exposure to customer accountability risk but this has very low impact on the rating.
- ➡ Czech Gas Networks Investments S.a r.l has exposure to labor relations & practices risk but this has very low impact on the rating.
- ➡ Czech Gas Networks Investments S.a r.l has exposure to social resistance but this has very low impact on the rating.
- ➡ Governance is minimally relevant to the rating and is not currently a driver.

Overall ESG Scale			
key driver	0	issues	5
driver	0	issues	4
potential driver	9	issues	3
not a rating driver	3	issues	2
	2	issues	1

Environmental (E)

General Issues	E Score	Sector-Specific Issues	Reference
GHG Emissions & Air Quality	1	Emissions from operations	Profitability and Cash Flow
Energy Management	2	Energy and fuel use in operations; entities' financial targets for losses/shrinkage	Profitability and Cash Flow
Water & Wastewater Management	1	Water usage in operations; water utilities' financial targets for water quality, leakage and usage	Operations; Profitability and Cash Flow; Financial Structure; Financial Flexibility
Waste & Hazardous Materials Management; Ecological Impacts	2	Impact of waste including pollution incidents; discharge compliance; sludge disposal	Operations; Profitability and Cash Flow; Financial Flexibility
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

E Scale



How to Read This Page

ESG scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant and green (1) is least relevant.

The **Environmental (E), Social (S) and Governance (G)** tables break out the individual components of the scale. The right-hand box shows the aggregate E, S, or G score. General Issues are relevant across all markets with Sector-Specific Issues unique to a particular industry group. Scores are assigned to each sector-specific issue. These scores signify the credit-relevance of the sector-specific issues to the issuing entity's overall credit rating. The Reference box highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis.

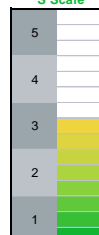
The **Credit-Relevant ESG Derivation table** shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the entity's credit rating. The three columns to the left of the overall ESG score summarize the issuing entity's sub-component ESG scores. The box on the far left identifies the some of the main ESG issues that are drivers or potential drivers of the issuing entity's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the score.

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) and the Sustainability Accounting Standards Board (SASB).

Social (S)

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

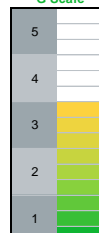
S Scale



Governance (G)

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

G Scale

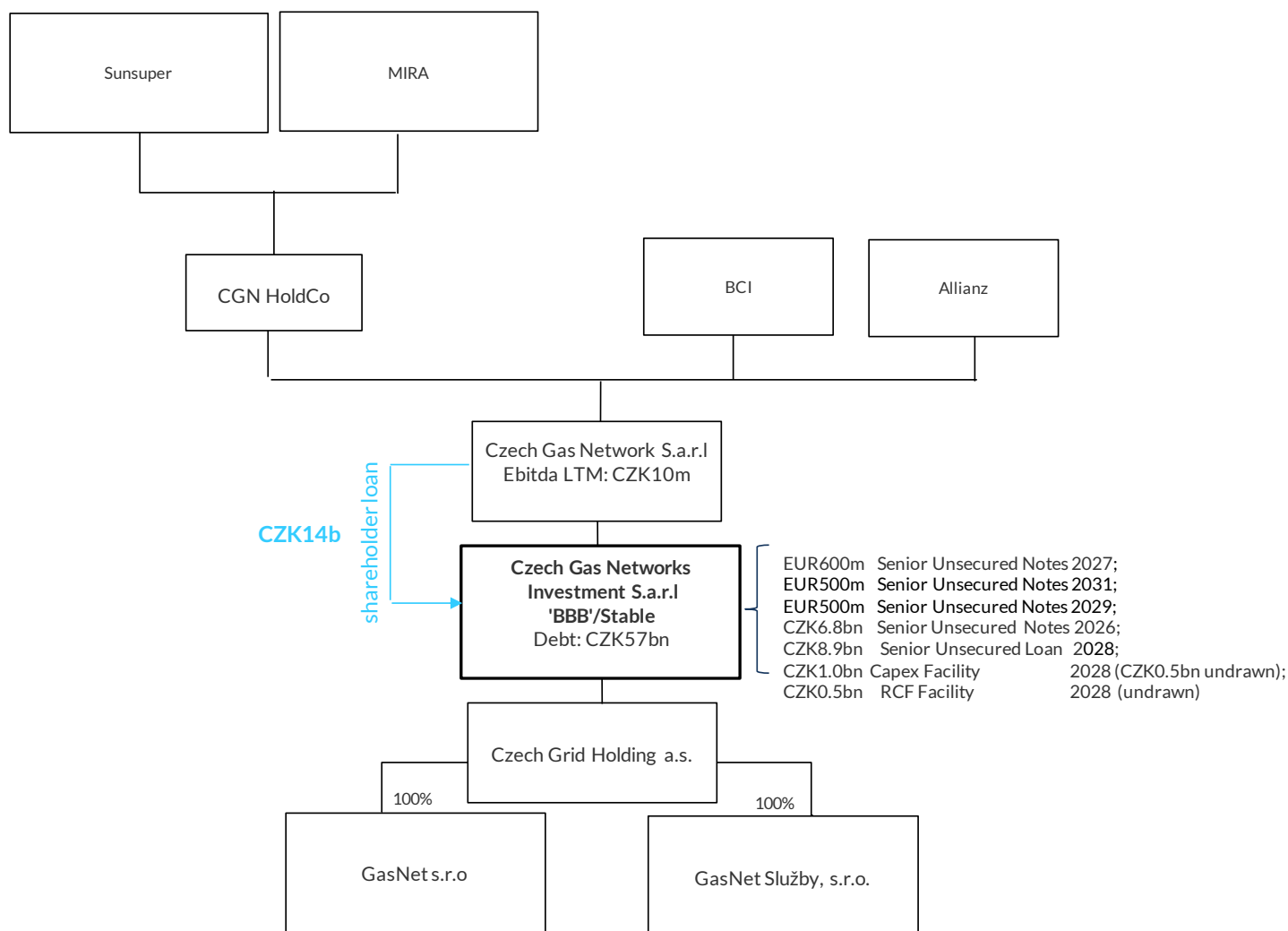


CREDIT-RELEVANT ESG SCALE

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



Note: Information as of June 2022

Source: Fitch Ratings, Fitch Solutions, Czech Gas Networks Investments S.a.r.l.

Peer Financial Summary

Company	Issuer default Rating	Financial statement date	Operating EBITDA (EURm)	Operating EBITDA margin (%)	Free cash flow (EURm)	FFO net leverage (x)	FFO interest coverage (x)
Czech Gas Networks Investments S.a.r.l	BBB						
	BBB	2021	399	67.9	-509	5.9	9.1
	BBB	2020	338	61.2	5	5.2	7.2
E.ON SE	BBB+						
	BBB+	2021	7,127	9.2	-2,330	4.7	6.0
	BBB+	2020	6,944	11.4	-944	5.0	5.4
	BBB+	2019	4,100	10.0	-1,688	7.3	3.1
e-netz Suedhessen AG	BBB+						
	BBB+	2021	0	16.3	0	3.3	3.3
	BBB	2020	0	16.5	0	3.5	3.3
	BBB	2019	0	17.4	0	3.5	3.4
Italgas S.p.A.	BBB+						
	BBB+	2020	960	66.6	-292	5.8	17.1
	BBB+	2019	907	71.3	-207	5.7	10.9
	BBB+	2018	851	71.2	163	5.3	15.2
SPP - distribucia, a.s.	BBB+						
	A-	2021	340	76.7	162	1.6	20.6
	A-	2020	323	76.7	-60	2.3	19.2
	A-	2019	326	77.1	75	1.9	20.7

Source: Fitch Ratings, Fitch Solutions.

Fitch Adjusted Financials

(CZKmn)	Notes and formulas	Reported values	Sum of adjustments	CORP-lease treatment	Other adjustments	Adjusted values
31 Dec 21						
Income statement summary						
Revenue		15,069				15,069
Operating EBITDAR		10,486	-248	-248		10,238
Operating EBITDAR after associates and minorities	(a)	10,486	-248	-248		10,238
Operating lease expense	(b)	0				0
Operating EBITDA	(c)	10,486	-248	-248		10,238
Operating EBITDA after associates and minorities	(d) = (a-b)	10,486	-248	-248		10,238
Operating EBIT	(e)	3,313	-37	-37		3,276
Debt and cash summary						
Total debt with equity credit	(f)	71,509	-14,992	-2,173	-12,819	56,517
Lease-equivalent debt	(g)	0				0
Other off-balance-sheet debt	(h)	0				0
Total adjusted debt with equity credit	(i) = (f+g+h)	71,509	-14,992	-2,173	-12,819	56,517
Readily available cash and equivalents	(j)	1,376				1,376
Not readily available cash and equivalents		0				0
Cash flow summary						
Operating EBITDA after associates and minorities	(d) = (a-b)	10,486	-248	-248		10,238
Preferred dividends (paid)	(k)	0				0
Interest received	(l)	6				6
Interest (paid)	(m)	-2,035	1,014	37	977	-1,021
Cash tax (paid)		-1,031				-1,031
Other items before FFO		68				68
Funds from operations (FFO)	(n)	7,494	766	-211	977	8,260
Change in working capital (Fitch-defined)		-311				-311
Cash flow from operations (CFO)	(o)	7,183	766	-211	977	7,949
Non-operating/nonrecurring cash flow		0				0
Capital (expenditures)	(p)	-4,531				-4,531
Common dividends (paid)		-7,796	-8,677		-8,677	-16,473
Free cash flow (FCF)		-5,144	-7,911	-211	-7,700	-13,055
Gross leverage (x)						
Total adjusted debt/operating EBITDAR ^a	(i/a)	6.8				5.5
FFO Adjusted leverage	(i)/(n-m-l-k+b))	7.5				6.1
FFO leverage	(i-g)/(n-m-l-k)	7.5				6.1
Total debt with equity credit/operating EBITDA ^a	(i-g)/d	6.8				5.5
(CFO-capex)/total debt with equity credit (%)	(o+p)/(i-g)	3.7%				6.0%
Net leverage (x)						
Total adjusted net debt/operating EBITDAR ^a	(i-j)/a	6.7				5.4
FFO adjusted net leverage	(i-j)/(n-m-l-k+b)	7.4				5.9
FFO net leverage	(i-g-j)/(n-m-l-k)	7.4				5.9
Total net debt with equity credit/operating EBITDA ^a	(i-g-j)/d	6.7				5.4
(CFO-capex)/total net debt with equity credit (%)	(o+p)/(i-g-j)	3.8%				6.2%
Coverage (x)						
Operating EBITDAR/(interest paid + lease expense) ^a	a/(-m+b)	5.2				10.0
Operating EBITDA/interest paid ^a	d/(-m)	5.2				10.0
FFO fixed-charge coverage	(n-l-m-k+b)/(-m-k+b)	4.7				9.1
FFO interest coverage	(n-l-m-k)/(-m-k)	4.7				9.1

^aEBITDA/R after dividends to associates and minorities.

Source: Fitch Ratings, Fitch Solutions, Czech Gas Networks Investments S.a.r.l

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