FitchRatings

Corporates
Utilities - Non US
Luxembourg

Czech Gas Networks Investments S.a r.l

Czech Gas Networks Investments S.a.r.l's (CGNI) Issuer Default Rating (IDR) is supported by its solid business profile as the largest gas distribution network in the Czech Republic under a fairly supportive regulatory framework. Fitch Ratings expects CGNI will generate positive pre-dividend free cash flow (FCF) on the back of stable operating cash flow generation and moderate capital expenditure (capex) requirements.

In our forecasts, we assume CGNI will manage dividend pay-outs to keep its funds from operations (FFO) net leverage below 6.7x on a sustained basis, which is consistent with the company's public intention to maintain the current rating.

The Rating Watch Positive (RWP) put in place in March 2024 follows CEZ Group signing an agreement to acquire a 55.21% stake in CGNI from Macquarie Asset Management (MIRA). The RWP reflects our expectation that the acquisition by a stronger group will benefit CGNI's ratings due to parent and subsidiary linkage, with the potential upgrade of the IDR if the credit profiles of both entities are unchanged following the transaction's completion.

Fitch will resolve the RWP once the transaction has been completed, which could take more than six months as it is subject to approvals by the European Commission and the Czech Ministry of Industry and Trade.

Key Rating Drivers

Acquisition by a Stronger GRE: Fitch expects CEZ's stronger credit profile to have a positive influence on CGNI's ratings, should the acquisition materialise as expected. We have no information on the legal incentives of CEZ to support CGNI, such as a cross-default provision that could lead to an equalisation of CGNI's rating with the consolidated profile of CEZ.

On a preliminary basis, we see limited operational synergies between the companies, but moderate strategic relevance for CGNI within the CEZ group, given its leading position as a gas distribution system operator, its regulated revenue profile and the expected relevant role of gas and hydrogen in the energy transition in the Czech Republic. CEZ is a government-related entity (GRE) as it is 69.8%-owned by the Czech Republic (AA-/Stable).

Solid Business Profile: CGNI's 'BBB' IDR reflects its solid business profile as a concessionaire (with no expiry) and the operator of the largest gas distribution network in the Czech Republic. It has an 81% market share, followed by Prazska Plynarenská Distribuce and EG.D.

Gas distribution in the Czech Republic is fully regulated and is currently in its fifth regulatory period (RP5), which provides cash flow visibility up to 2025. A well-structured compensation mechanism, including automatic reflection of differences between actual and forecast distribution volumes within two years, provides good cash flow predictability.

We consider the risk of significant regulatory changes affecting the core principles of RP6 starting in 2026 as low, given the Energy Regulatory Office's record of providing a supportive and transparent consultative approach.

Further RP6 Visibility in 4Q24: The process to define RP6 regulatory rules is in progress, with limited visibility on the main parameters changes at this stage. The draft regulation is expected to be available for public consultation in 3Q24, with the final act published in 1Q25. We consider the risk of significant regulatory changes as low, ensuring a stable remuneration scheme.

Ratings

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

Watch

Long-Term Foreign-Currency IDR	Positive

Click here for the full list of ratings

2035 Climate Vulnerability Signal: 45

Applicable Criteria

Corporate Rating Criteria (November 2023)

Corporates Recovery Ratings and Instrument Ratings Criteria (October 2023)

Sector Navigators – Addendum to the Corporate Rating Criteria (November 2023)

Related Research

CEE Energy Networks—Relative Credit Analysis (March 2024)

EMEA Utilities Outlook 2024 (November 2023)

EMEA Gas Networks—Relative Credit Analysis (August 2023)

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During the process of determining the regulatory rules for RP6, the discussions will mainly be about the weighted average cost of capital (WACC), opex regulation, compensation for costs arising from new EU/Czech legislation and support for energy transition initiatives.

Capex Update: CGNI's investment strategy for 2024-2028 earmarks a total capex of CZK32 billion (up by CZK4 billion compared with 2023-2027). About CZK28 billion will be directed towards essential regulated capex, with an additional CZK1.4 billion allocated for IT and other regulated investments. Significant growth in regulated capex is projected for 2028, as the company gears up for the hydrogen grid transition.

Unregulated capex accounts for CZK3 billion, primarily focusing on hydrogen production initiatives, and, to a lesser extent, on cogeneration and liquefied natural gas projects. Contribution from non-regulated activities to EBITDA is expected to stay modest up to 2027, at only 1%-3%.

2023 EBITDA Declined; 2024 Recovery: We estimate EBITDA to decline by 18% to CZK7.5 billion in 2023 due to the reimbursement of the cumulative historical k-factor (CZK2.65 billion, one-off event). However, we expect a recovery of about 40% to about CZK10.6 billion in 2024-2025 backed by normalised-allowed revenue levels on steady growth path, positive k-factor collection and operating efficiencies. There is limited visibility for the new regulatory period from 2026. Our forecast assumes annual EBITDA of CZK11.3 billion by 2026-2027, supported by our expectation of a 100bp increase in WACC and higher, although limited, contribution from non-regulated activities.

Leverage Return within Sensitivities: We estimate leverage above the negative rating threshold in 2023 as a result of lower EBITDA and the decision to distribute CZK3.5 billion of dividends (including interest paid on shareholder loans). This amount, which we consider aggressive for the scenario of lower revenue, included deferred payment of dividends postponed previously in 2022 due to uncertainty in gas markets after Russia's invasion of Ukraine. However, we expect leverage metrics for 2024-2027 to remain consistent with the rating.

Coverage metrics are well placed within the guidelines despite higher interest rates due to the large share of fixed-rate and hedged debt until 2025 (95%). However, they will deteriorate from 2026 when large debt refinancing starts to take place.

Commitment to Leverage Target: CGNI's management has confirmed its target of maintaining a 'BBB+' bond rating. Following leverage being above the negative rating threshold in 2023, the updated 2024-2028 plan reflects a more conservative capital structure, leaving some headroom to the negative rating threshold of 6.7x versus a dividend-maximisation policy before. A more conservative approach is driven by uncertainties about the outcome of negotiations regarding RP6 and the current high interest-rate environment.

Capital Structure Following Ownership Change: MIRA has agreed the sale of its 55.21% stake to CEZ following the end of the 10-year investment horizon strategy for EUR846.5 million (equity value). The upcoming change in shareholding in addition to the loose covenant debt structure may pose risks to the capital structure in the medium term, despite CGNI's management intention to maintain the current rating. The RWP is based on our assumption of unchanged capital structure and therefore unchanged Standalone Credit Profile (SCP) for CGNI, as result of the company's acquisition.

Key Role of Gas: The Czech gas market has shown stable gas consumption, with yearly fluctuations mostly driven by temperature changes. A carbon-heavy energy mix and a supportive government position towards decarbonisation underpin the positive outlook for gas consumption in the short-to-medium term. There is already evidence of district heating shifting from coal towards gas, expressed in the increase of gas connections and consumption in the distribution area of the company. The transformation is supported with government subsidy programmes from modernisation funds.

Financial Summary

(CZKm)	2020	2021	2022	2023E	2024F	2025F
EBITDA	8,931	10,238	9,180	7,495	10,523	10,595
EBITDA margin (%)	62.7	67.9	65.7	57.5	55.4	55.5
FFO	7,031	8,260	7,107	5,434	8,450	7,575
FFO interest coverage (x)	7.2	9.1	6.0	4.4	6.1	4.5
FFO net leverage (x)	5.2	5.9	6.3	7.9	6.0	6.6

F — Forecast, F – Estimate
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. We believe the two companies benefit from similarly supportive regulations (Germany and Sweden versus the Czech Republic), while E.ON's large exposure to supply is mitigated by its unique diversification and size.

CGNI's business risk is higher than that of the Italian distribution system operator 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. (SPPD; A-/Stable; SCP: 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 average FFO net leverage of 2.4x forecast in 2023-2027, mostly explains the SCP differential. SPPD's IDR is capped at one notch above the consolidated credit profile of its immediate parent, SPP Infrastructure, a.s., in line with our Parent and Subsidiary Linkage Rating Criteria.

Navigator Peer Comparison

	IDR/Outlook	Operating Environment	Management and Corporate Governance	Sector Positioning	Regulatory Environment	Asset Base	Operational Profile	Profitability and Cash Flow	Financial Structure	Financial Flexibility
Czech Gas Networks Investments S.a r.l	BBB/RWP	a+	bbb	a-	bbb+	bbb+	a	bbb	bb+	bbb+
Enagas S.A.	BBB/Stable	a-	bbb+	bbb	bbb	bbb+	a-	bbb-	bbb	a-
Italgas S.p.A.	BBB+/Stable	a-	a-	a-	a-	bbb+	a	bbb	bbb-	bbb-
National Gas Transmission Plc	BBB+/Stable	aa-	a-	a	a	bbb+	a	bbb	bbb	bbb
Snam S.p.A.	BBB+/Stable	a-	a	a	a-	bbb+	a	bbb	bbb	a-

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 and Cash Flow	Financial Structure	Financial Flexibility
Czech Gas Networks Investments S.a r.l	BBB/RWP	+4	0	+2	+1	+1	+3	0	-2	+1
Enagas S.A.	BBB/Stable	+2	+1	0	0	+1	+2	-1	0	+2
Italgas S.p.A.	BBB+/Stable	+1	+1	+1	+1	0	+2	-1	-2	-2
National Gas Transmission Plc	BBB+/Stable	+4	+1	+2	+2	0	+2	-1	-1	-1
Snam S.p.A.	BBB+/Stable	+1	+2	+2	+1	0	+2	-1	-1	+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 Positive Rating Action/Upgrade

- Completion of the acquisition and evidence of CEZ preserving a stronger credit profile than CGNI together with a positive assessment of available legal, strategic and operational incentives for CEZ to provide support under our PSL Criteria
- FFO net leverage below 6.0x 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 3.5x over a sustained period
- 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. As of end-2023, CGNI retains about CZK1.4 billion cash on balance sheet, has undrawn capex of CZK1 billion and a revolving credit facility of CZK500 million. We expect the company to generate positive pre-dividend FCF over our forecast horizon to 2027.

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.

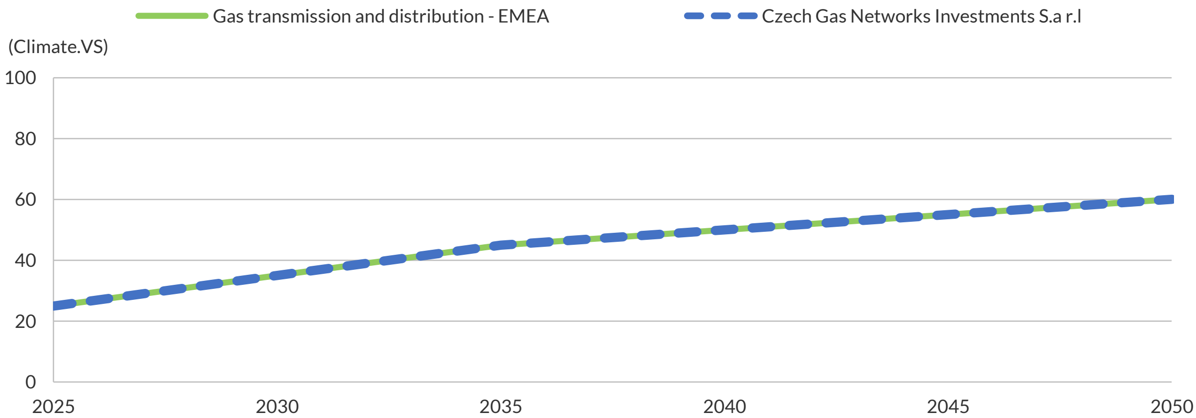
Climate Vulnerability Considerations

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.

The 2022 revenue-weighted Climate.VS for CGNI for 2035 is 45 out of 100, suggesting material exposure to climate-related risks in that year. For further information on how Fitch perceives climate-related risks in the utilities sector, see Utilities –Long-Term Climate Vulnerability Signals Update.

This is mitigated by characteristics of the Czech Republic's energy system (reliance on fossil fuels) and constraints of alternative technologies in the country, likely leading to gaseous fuels playing a significant role across all decarbonisation scenarios.

Climate.VS Evolution
As of December 31, 2022



Source: Fitch Ratings

Liquidity and Debt Maturities

Liquidity Analysis

(CZKm)	2023E	2024F	2025F	2026F
Available liquidity				
Beginning cash balance	4,040	1,194	-4,024	-7,158
Rating case FCF after acquisitions and divestitures	-2,846	-5,218	-3,135	-2,487
Total available liquidity (A)	**1,194**	**-4,024**	**-7,158**	**-9,645**
Liquidity uses				
Debt maturities	—	—	—	-7,000
Total liquidity uses (B)	**—**	**—**	**—**	**-7,000**
Liquidity calculation				
Ending cash balance (A+B)	1,194	-4,024	-7,158	-16,645
Revolver availability	1,500	1,500	1,500	—
Ending liquidity	**2,694**	**-2,524**	**-5,658**	**-16,645**
Liquidity score (x)	Not meaningful	Not meaningful	Not meaningful	-1.4

F – Forecast, E – Estimate
Source: Fitch Ratings, Fitch Solutions, Czech Gas Networks Investments S.a r.l

Scheduled debt maturities

(CZKm)	31 Dec 22
2023	—
2024	—
2025	—
2026	7,000
2027	14,465
Thereafter	35,409
Total	**56,874**

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

Key Assumptions

Fitch's Key Assumptions Within our Rating Case for the Issuer

- Revenue is based on the current RP5 regulatory principles
- RP5 WACC for 2024 at 6.43%, 2025 at 6.55% due to tax-rate increases. WACC for new RP6 period starting in 2026 assumed at 7.55%
- Annual EBITDA of about CZK10.6 billion for 2024-2025 and about CZK11.3 billion for 2026-2027
- Average capex of CZK5.9 billion in 2024-2027
- Average dividends at about CZK5 billion for 2024-2027

Financial Data

(CZKm)	2020	2021	2022	2023E	2024F	2025F
Summary income statement						
Gross revenue	14,594	15,069	13,981	13,025	18,987	19,105
Revenue growth (%)	242.6	3.3	-7.2	-6.8	45.8	0.6
EBITDA before income from associates	8,931	10,238	9,180	7,495	10,523	10,595
EBITDA margin (%)	61.2	67.9	65.7	57.5	55.4	55.5
EBITDA after associates and minorities	8,931	10,238	9,180	7,495	10,523	10,595
EBITDAR	9,156	10,238	9,180	7,495	10,523	10,595
EBITDAR margin (%)	62.7	67.9	65.7	57.5	55.4	55.5
EBIT	1,409	3,276	2,505	881	6,313	6,323
EBIT margin (%)	9.7	21.7	17.9	6.8	33.2	33.1
Gross interest expense	-1,916	-1,432	-2,055	-1,583	-1,660	-2,142
Pretax income including associate income/loss	-2,122	4,772	-2,609	-2,937	4,652	4,181
Summary balance sheet						
Readily available cash and equivalents	1,741	1,376	4,040	1,194	976	802
Debt	43,965	56,517	56,874	56,874	61,874	64,834
Lease-adjusted debt	45,765	56,517	56,874	56,874	61,874	64,834
Net debt	42,224	55,141	52,834	55,680	60,898	64,032
Summary cash flow statement						
EBITDA	8,931	10,238	9,180	7,495	10,523	10,595
Cash interest paid	-1,134	-1,021	-1,391	-1,583	-1,660	-2,142
Cash tax	-732	-1,031	-737	-404	-434	-901
Dividends received less dividends paid to minorities (inflow/outflow)	—	—	—	—	—	—
Other items before FFO	-34	68	-116	-75	22	23
FFO	7,031	8,260	7,107	5,434	8,450	7,575
FFO margin (%)	48.2	54.8	50.8	41.7	44.5	39.7
Change in working capital	21	-311	508	-178	-382	16
CFO (Fitch-defined)	7,052	7,949	7,615	5,256	8,069	7,591
Total non-operating/nonrecurring cash flow	—	—	—	—	—	—
Capex	-4,368	-4,531	-3,784	—	—	—
Capital intensity (capex/revenue) (%)	29.9	30.1	27.1	—	—	—
Common dividends	-2,557	-16,473	-1,693	—	—	—
FCF	127	-13,055	2,138	—	—	—
FCF margin (%)	0.9	-86.6	15.3	—	—	—
Net acquisitions and divestitures	10	11	34	—	—	—
Other investing and financing cash flow items	-93	—	—	—	—	—
Net debt proceeds	771	12,679	492	—	5,000	2,960
Net equity proceeds	—	—	—	—	—	—
Total change in cash	815	-365	2,664	-2,846	-218	-175
Leverage ratios (x)						
EBITDA leverage	4.9	5.5	6.2	7.6	5.9	6.1
EBITDA net leverage	4.7	5.4	5.8	7.4	5.8	6.0
EBITDAR leverage	5.0	5.5	6.2	7.6	5.9	6.1
EBITDAR net leverage	4.8	5.4	5.8	7.4	5.8	6.0
FFO adjusted leverage	5.5	6.1	6.8	8.1	6.1	6.7
FFO adjusted net leverage	5.2	5.9	6.3	7.9	6.0	6.6
FFO leverage	5.4	6.1	6.8	8.1	6.1	6.7
FFO net leverage	5.2	5.9	6.3	7.9	6.0	6.6

(CZKm)	2020	2021	2022	2023E	2024F	2025F
Calculations for forecast publication						
Capex, dividends, acquisitions and other items before FCF	-6,915	-20,993	-5,443	-8,102	-13,286	-10,725
FCF after acquisitions and divestitures	137	-13,044	2,172	-2,846	-5,218	-3,135
FCF margin after net acquisitions (%)	0.9	-86.6	15.5	-21.9	-27.5	-16.4
Coverage ratios (x)						
FFO interest coverage	7.2	9.1	6.0	4.4	6.1	4.5
FFO fixed-charge coverage	6.2	9.1	6.0	4.4	6.1	4.5
EBITDAR fixed-charge coverage	6.7	10.0	6.6	4.7	6.3	4.9
EBITDAR net fixed-charge coverage	6.7	10.1	7.5	4.7	6.3	4.9
EBITDA interest coverage	7.9	10.0	6.6	4.7	6.3	4.9
Additional metrics (%)						
CFO-capex/debt	6.1	6.0	6.7	1.1	5.1	3.2
CFO-capex/net debt	6.4	6.2	7.3	1.1	5.2	3.2
CFO/capex	161.4	175.4	201.2	113.4	164.7	137.1

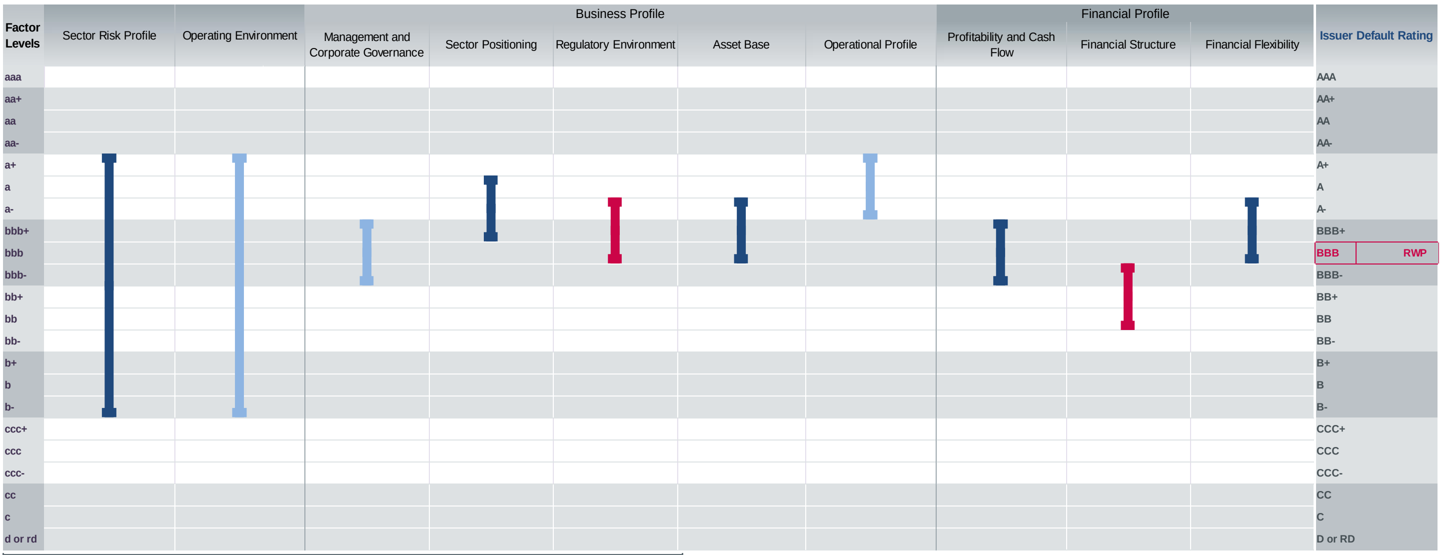
CFO – Cash flow from operations, F – Forecast, E – Estimate
Source: Fitch Ratings, Fitch Solutions

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

FitchRatings **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 Colors = Relative Importance	⇧ Positive
Higher Importance	⇩ Negative
Average Importance	⇳ Evolving
Lower Importance	□ Stable

FitchRatings

Czech Gas Networks Investments S.a r.l

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	aa	Very strong combination of issuer-specific funding characteristics and the strength of the relevant local financial market.
	Systemic Governance	a	Systemic governance (eg rule of law, corruption, government effectiveness) of the issuer's country of incorporation consistent with 'a'.
b-			
ccc+			

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+			

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			

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	bbb	Less demanding licensing and ring-fencing provisions; moderate concession renewal risk.
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.
a-	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	a	High asset quality likely to benefit opex and capex requirements compared with peers. The residual life of regulatory assets is long.
bbb			
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+			

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	bbb	Investment cycle position and dividend policy contributing to negative free cash flow. Moderate 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)	b	90%
bb	Cash PMICR		
bb-	Nominal PMICR		

Financial Flexibility

a	Financial Discipline	bbb	Financial policies less conservative than peers but generally applied consistently.
a-	Liquidity	a	No need for external funding beyond committed facilities in the next 12 months even under a severe stress scenario. Well-spread maturities. Diversified funding.
bbb+	FFO Interest Coverage	a	4.5x
bbb	FX Exposure	a	Profitability potentially exposed to FX but efficient hedging. Debt and cash flow well matched.
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.

Credit-Relevant ESG Derivation

Overall ESG

Czech Gas Networks Investments S.a r.l has 13 ESG potential rating drivers	key driver	0	issues	5
Emissions from operations				
Energy and fuel use in operations; entities' financial targets for losses/shrinkage	driver	0	issues	4
Water usage in operations; water utilities' financial targets for water quality, leakage and usage	potential driver	13	issues	3
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)	not a rating driver	1	issues	2
Product affordability and access		0	issues	1
Showing top 6 issues				

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

FitchRatings

Czech Gas Networks Investments S.a r.l

Corporates Ratings Navigator
EMEA Regulated Networks

Credit-Relevant ESG Derivation

Czech Gas Networks Investments S.a r.l has 13 ESG potential rating drivers

- Czech Gas Networks Investments S.a r.l has exposure to emissions regulatory risk but this has very low impact on the rating.
- Czech Gas Networks Investments S.a r.l has exposure to energy regulatory risk but this has very low impact on the rating.
- Czech Gas Networks Investments S.a r.l has exposure to water management risk but this has very low impact on the rating.
- Czech Gas Networks Investments S.a r.l has exposure to waste & impact management risk but this has very low impact on the rating.
- 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.

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

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

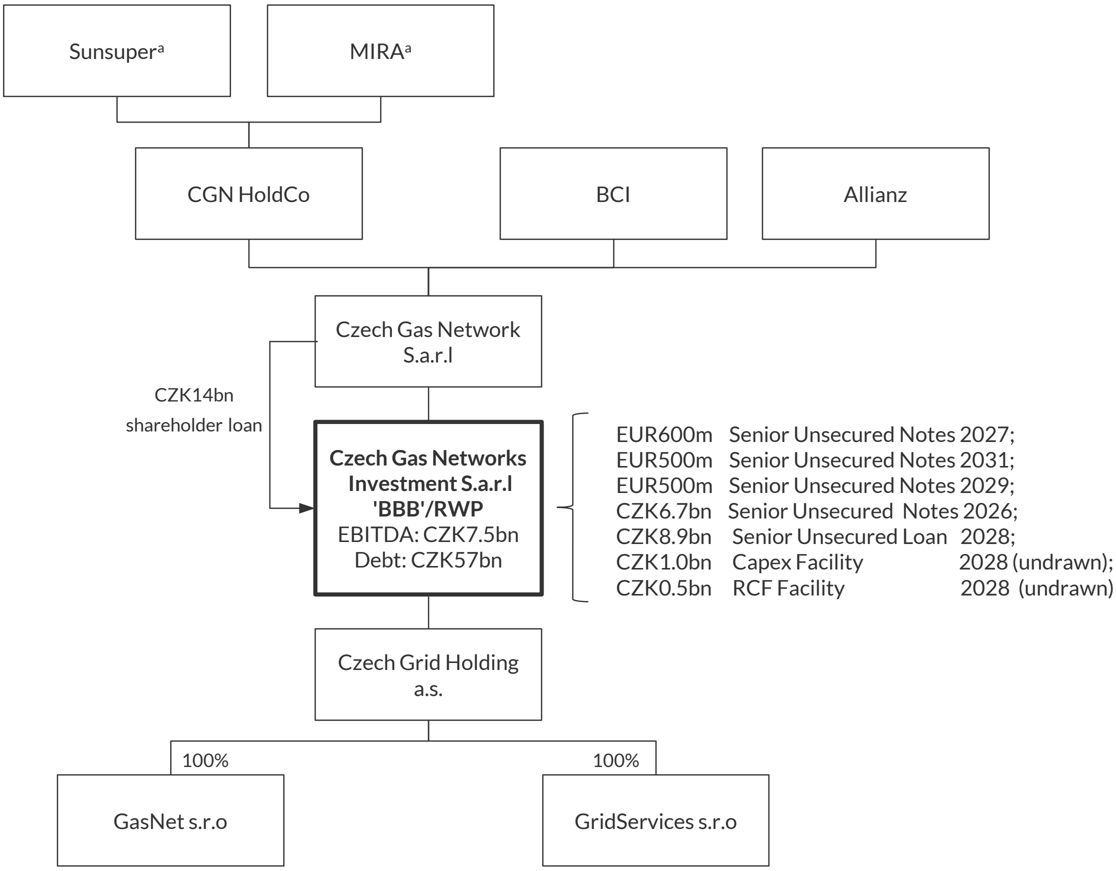
How to Read This Page
ESG relevance scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant to the credit rating and green (1) is least relevant.
The Environmental (E), Social (S) and Governance (G) tables break out the ESG general issues and the sector-specific issues 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.

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



[a] Following the finalization of the acquisition, MIRA and Sunsuper will be replaced by CEZ.
Source: Fitch Ratings, Fitch Solutions, Czech Gas Networks Investments S.a.r.l, as of December 2023

Peer Financial Summary

Company	Issuer Default Rating	Financial statement date	EBITDA (EURm)	EBITDA margin (%)	FCF (EURm)	FFO net leverage (x)	FFO interest coverage (x)
Czech Gas Networks Investments S.a r.l	BBB						
	BBB	2022	381	65.7	89	6.3	6.0
	BBB	2021	408	67.9	-521	5.9	9.1
	BBB	2020	339	61.2	5	5.2	7.2
Italgas S.p.A.	BBB+						
	BBB+	2022	1,077	69.2	-379	6.8	16.3
	BBB+	2021	1,009	73.6	-277	6.2	13.5
	BBB+	2020	960	66.6	-292	5.8	17.1
Snam S.p.A.	BBB+						
	BBB+	2022	2,187	62.2	2,314	6.2	14.8
	BBB+	2021	2,237	67.8	-391	6.9	17.4
	BBB+	2020	2,158	77.9	-354	6.6	12.7
E.ON SE	BBB+						
	BBB+	2022	6,011	5.2	3,528	4.0	6.2
	BBB+	2021	6,454	8.3	-2,330	4.0	7.0
	BBB+	2020	6,944	11.4	-944	5.0	5.4
REN - Redes Energeticas Nacionais, SGPS, S.A.	BBB						
	BBB	2022	477	81.1	326	5.2	9.7
	BBB	2021	454	80.3	439	6.1	9.7
	BBB	2020	463	82.1	89	6.5	7.9
Enagas S.A.	BBB						
	BBB	2022	558	57.5	272	5.4	10.7
	BBB+	2021	645	65.0	192	5.5	10.6
	BBB+	2020	735	67.8	208	5.5	8.9
National Gas Transmission Plc	BBB+						
	BBB+	2023	957	43.8	-15	5.0	8.6
	BBB+	2022	868	53.4	332	5.1	7.7
	BBB+	2021	796	60.4	265	6.6	7.2
Amprion GmbH	BBB+						
	BBB+	2022	652	11.6	-1,189	5.4	8.4
	BBB+	2021	601	14.5	-803	3.9	11.5
	BBB+	2020	571	17.3	-631	2.5	13.9

Source: Fitch Ratings, Fitch Solutions

Fitch Adjusted Financials

(CZKm as of 31 Dec 22)	Notes and formulas	Standardised values	Lease treatment	Other adjustments	Adjusted values
Income statement summary					
Revenue		13,981	—	—	13,981
EBITDA	(a)	9,470	-290	—	9,180
Depreciation and amortisation		-6,887	212	—	-6,675
EBIT		2,583	-78	—	2,505
Balance sheet summary					
Debt	(b)	70,999	-2,272	-11,853	56,874
Of which other off-balance-sheet debt		—	—	—	—
Lease-equivalent debt		—	—	—	—
Lease-adjusted debt		70,999	-2,272	-11,853	56,874
Readily available cash and equivalents	(c)	4,040	—	—	4,040
Not readily available cash and equivalents		—	—	—	—
Cash flow summary					
EBITDA	(a)	9,470	-290	—	9,180
Dividends received from associates less dividends paid to minorities	(d)	—	—	—	—
Interest paid	(e)	-2,116	78	647	-1,391
Interest received	(f)	171	—	—	171
Preferred dividends paid	(g)	—	—	—	—
Cash tax paid		-737	—	—	-737
Other items before FFO		-116	—	—	-116
FFO	(h)	6,672	-212	647	7,107
Change in working capital		508	—	—	508
CFO	(i)	7,180	-212	647	7,615
Non-operating/nonrecurring cash flow		—	—	—	—
Capex	(j)	-3,784	—	—	-3,784
Common dividends paid		-1,046	—	-647	-1,693
FCF		2,350	-212	—	2,138
Gross leverage (x)					
FFO leverage	b/(h-e-f-g)	8.2	—	—	6.8
(CFO-capex)/debt (%)	(i+j)/b	4.8	—	—	6.7
Net leverage (x)					
FFO net leverage	(b-c)/(h-e-f-g)	7.8	—	—	6.3
(CFO-capex)/net debt (%)	(i+j)/(b-c)	5.1	—	—	7.3
Coverage (x)					
FFO interest coverage	(h-e-f-g)/(-e-g)	4.1	—	—	6.0

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

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