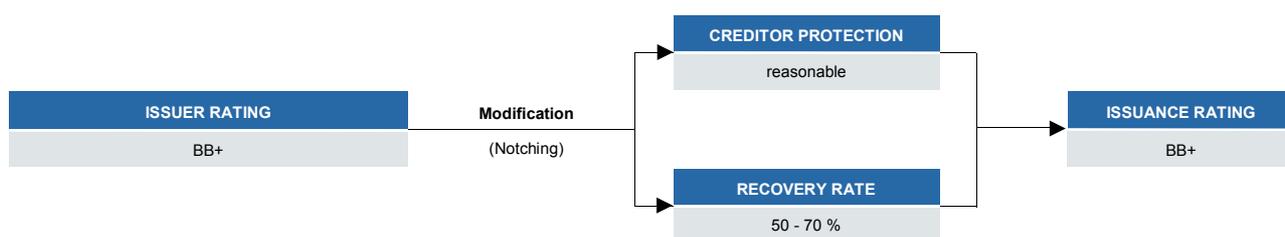


Issuance Rating

TIGÁZ Földgázelosztó Zrt. Senior unsecured bonds (2021/2031) (ISIN HU0000360292)		15 March 2021	BB+
		Issuance rating	
Industry	Regulated Utility Companies	Issuance volume	HUF 50bn
		Coupon (% p.a.)	2.80%



ISSUER RATING	BB+
<ul style="list-style-type: none"> Low to moderate business risks due to established market regulation, distribution license and predictable operations Slightly increased financial risks due to restricted earnings potential and moderate financial flexibility No modification for operational risks or external influence 	

CREDITOR PROTECTION	reasonable
<ul style="list-style-type: none"> Final bond terms and conditions (12/03/2021) Partially amortising bond structure Reasonable, market standard terms esp. with view to termination rights, covenants and negative clauses 	

BOND RANKING	senior unsecured
<ul style="list-style-type: none"> Robust senior ranking Bond proceeds to fully replace existing senior lenders 	

RECOVERY	50 – 70 %
<ul style="list-style-type: none"> Hypothetical default scenario based on going concern assumption Expected recovery rate: 50% - 70% 	

KEY DATA		
Listing	Yes	Secondary market listing 90 days post issuance (BÉT Xbond; HU0000360292)
Nominal value	HUF 50bn	Annual settlement date: 24 th March
Denomination	HUF 50.000.000	1.000 bonds á HUF 50mn = HUF 50bn (total issuance volume)
Coupon	2.80% p.a. fix	Annual coupon payments from 24/03/2022 (retrospective)
Amortisation	partially amortising	2022-2026 3% p.a. / 2027-2030: 9% p.a. / 2031: 49% balloon payment
Term to maturity	10 years	Term begins on 24/03/2021, maturity date is 24/03/2031
Collateral	none	Senior unsecured bonds

Rating rationale

Euler Hermes Rating has assigned a **BB+** issuance rating to **TIGÁZ' 2021/31 senior unsecured bonds with a total nominal value of HUF 50bn**. The rating was derived from **TIGÁZ' current issuer credit rating (BB+)**, the bond's structural ranking, reasonable creditor rights and adequate recovery expectations in a hypothetical bond default scenario.

Robust senior ranking within post issuance capital structure

TIGÁZ' HUF 50bn senior unsecured bonds (2021/31; fixed annual coupon rate 2.80%) are governed by Hungarian law and are structured as partially amortising balloon notes with a term of 10 years. Overall we assess the bonds to be subject to a robust senior ranking, as the net proceeds from the offering shall be used to fully replace the current providers of external senior (secured) debt financing (MKB Bank). This brings the relative ranking of the bond holders into the most senior position, as the proportion of higher ranking secured long-term financial debt shall be zero post issuance while the second source of funding ranks subordinated (shareholder loan/facility).

Reasonable creditor protection rights

TIGÁZ' largely unpledged assets represent a notable long-term borrowing base. For holders of unsecured debt it is important to mitigate the risk of becoming significantly disadvantaged in the event of additional (secured) debt issues, when permitted. For regulated utilities we generally expect lower risks, as structural protection rules often limit their ability to raise new debt by requiring a certain amount of unencumbered assets. Nevertheless, a standard set of reasonable creditor protection clauses has been included into the final bond terms. In our view, the applied clauses such as *pari passu*, negative pledge, rating deterioration or cross default keep the issuers capital structure under control while ensuring equal rights of payment and equal seniority with any new debt issues. We also acknowledge the binding commitment for partial amortisation.

50%-70% expected recovery rate based on hypothetical default scenario

Our recovery expectation for TIGÁZ' senior unsecured bonds follows a hypothetical default scenario based on a going concern assumption. At present, TIGÁZ' overall creditworthiness is driven by an already low probability of default mainly as a result of a perpetual territory-based gas distribution license, highly predictable operating cash flows and reliable market regulations, which is supportive in sustaining the typically high long-term debt levels of regulated utilities (cp. BB+ issuer rating report). In a hypothetical default scenario, however, we assume a material deterioration of the issuer's overall creditworthiness as a cause of adverse market regulation leading up to depressed long-term profit prospects and stressed going concern values. We also assume that ranking and size of debt claims will usually change prior to default, and that the issuer would be forced to pledge its assets to raise new debt as its credit quality gradually deteriorates. As a consequence, loss given default usually rises disproportionately the higher the probability of default is. This is especially true for unsecured debt. Nevertheless, we still expect adequate recovery rates of between 50%-70% for TIGÁZ' unsecured senior bonds, as regulated utilities have proven to maintain higher values in distressed situations due to its integral assets which provide essential, public services that cannot be easily replaced. Our assessment leads to the equalization of the bond issuance rating with the current issuer rating of TIGÁZ Földgázelosztó Zrt. (BB+).

Rating History

	03 September 2019	07 September 2020	15 March 2021
Issuer rating	BB+	BB+	BB+
Issuance rating	preBB+	preBB+	BB+
Outlook	stable	stable	stable

Upgrade / Downgrade Factors

Factors that could lead to an Upgrade

- Upgrade of TIGÁZ' issuer credit rating
- Lasting improvement of the bond's expected recovery rate

Factors that could lead to a Downgrade

- Downgrade of TIGÁZ' issuer credit rating
- Lasting deterioration of the bond's expected recovery rate

Issuance

Issue proceeds to refinance existing financial debt

TIGÁZ' HUF 50bn senior unsecured bonds (2021/31; fixed annual coupon rate 2.80%) are governed by Hungarian law and are structured as partially amortising balloon notes with a term of 10 years. The balloon payment (49%) is due at maturity (24/03/2031). The net proceeds will be used to fully refinance the existing third-party financial liabilities and large parts of the (subordinated) shareholder loans. As of 31/12/2020 the company's capital structure contained (secured) bank liabilities provided by a consortium of three commercial banks led by MKB Bank in the amount of HUF 32bn and subordinated shareholder loans in the amount of HUF 25bn.

Non-public auction March 2021

TIGÁZ applied for MNB's "Bond Funding for Growth Scheme" (BGS) and initiated a private placement process under the advice of MKB Bank (issuing agent) in Q1/2021. Besides the Central Bank of Hungary (MNB) a further ten institutional investors are asked to place their purchase orders until 22/03/2021 (closing date). Allocation of the bonds and settlement with the paying agent will take place until 24/03/2021 (settlement date). At a later stage (90 days post issuance) a secondary market listing of the notes at the Budapest Stock Exchange is obligatory (BÉT Xbond).

Final issuance rating assigned

The issuance rating is linked to TIGÁZ' current issuer credit rating (BB+; rating report 07/09/2020). The issuer rating is subject to a regular, ongoing monitoring process and already takes account of the recently disclosed change in the ownership structure of TIGÁZ, where MET Holding AG, as seller, and OPUS GLOBAL Plc. as buyer entered into a Share Sale and Purchase Agreement. The completion of the transaction shall take place by 31/03/2021, subject to the fulfilment of certain conditions precedent. As a consequence, OPUS GLOBAL will acquire control over TIGÁZ. Furthermore, the final issuance rating is assigned based on the final bond documentation as of 12/03/2021, confirming our preliminary assessment on structural ranking, creditor rights and recovery expectations.

Appendix 1: Execution

Notice

This report represents a supplement to the issuer rating report from 07 September 2020. The issuance rating is derived from the current issuer rating (subject to ongoing monitoring). The full rationale for the issuer rating notation can be found in the issuer rating report.

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Rating committee

- Dörte Mähmann, Director
- Holger Ludewig, Director

Rating, Solicitation, Principal Sources of Information

- This credit rating has been issued in accordance with the CRA Regulation.

Solicited Rating

Unsolicited Rating

No participation of the issuer or related third party

With participation of the issuer or related third party

Access to internal documents

Access to management

- Prior to its publication the rating was disclosed to the issuer. During this period, the issuer had the opportunity to review the rating and to verify the underlying assumptions. Following this review, the rating was not amended.
- Principal sources of information:
 - Final bond documentation (as of 12/03/2021)
 - Business plan provided by the issuer
 - Management interviews

Rating methodologies and definitions

- Euler Hermes Rating GmbH Issue Rating Methodology as of December 2014 (https://www.ehrq.de/seiten/Methodology_Issue%20Rating_20171114.pdf)
- Basic principles for Assigning Credit Ratings and Other Services as of July 2020 (https://www.ehrq.de/seiten/Principles_200701.pdf)
- Guidance Regarding the Consideration of ESG Factors in Euler Hermes Rating Credit Ratings as of March 2020 (https://www.ehrq.de/seiten/ESG_2020.pdf)

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Appendix 2: Rating categories*

Category	Explanation
AAA	In the opinion of EHR, AAA rated obligations demonstrate an excellent credit quality and the lowest default risk.
AA	In the opinion of EHR, AA rated obligations demonstrate a very high credit quality with a very low default risk.
A	In the opinion of EHR, A rated obligations demonstrate a high credit quality with a low default risk.
BBB	In the opinion of EHR, BBB rated obligations demonstrate a medium credit quality with a moderate default risk.
BB	In the opinion of EHR, BB rated obligations demonstrate a medium-low credit quality with a slightly increased default risk.
B	In the opinion of EHR, B rated obligations demonstrate a low credit quality with an increased default risk.
CCC	In the opinion of EHR, CCC rated obligations demonstrate a very low credit quality with a high default risk.
CC	In the opinion of EHR, CC rated obligations demonstrate a very low credit quality, an event of default is very likely.
C	In the opinion of EHR, C rated obligations demonstrate a very low credit quality, an event of default is imminent.
D	D rated obligations have defaulted, as defined by the rating agency.
PLUS (+) MINUS (-)	Rating categories from AA to CCC are modified by a PLUS (+) or MINUS (-), where required, in order to show their relative position within the rating category.

* For more explanations and definitions please refer to: Basic principles for Assigning Credit Ratings and Other Services (https://www.ehrg.de/seiten/Principles_200701.pdf)

Disclaimer

Magyar Nemzeti Bank (client) engaged Euler Hermes Rating GmbH to review the rating of the envisaged bond issuance (rated obligation) of TIGÁZ Földgázelosztó Zrt. (issuer) on 25 May 2020. Interviews with the issuer were conducted on 26 August 2020 and 12 March 2021.

The Rating Committee of Euler Hermes Rating GmbH reviewed the rating process, issued the rating notation and approved the rating report in its current form on 15 March 2021. This rating report was given to the client on 15 March 2021, thereby concluding the rating process.

The rating is Euler Hermes Rating GmbH's opinion of the creditworthiness of a certain obligation. It is not a statement of fact. Euler Hermes Rating GmbH is not engaged in buying or selling securities. Its rating report is neither a prospectus nor a substitute for information assembled and presented by companies or issuers for investors regarding the purchase of a security or for assessing the creditworthiness of a rated entity. The rating is not a recommendation to participate in certain facilities. All recipients of the information must conduct their own independent analyses, credit assessments and other verifications and evaluations that are customary and necessary in order to reach a final decision about participating in any facility.

The issuer is solely and exclusively liable for any errors and omissions in the documents and information openly and willingly provided to us in response to our requests for information. The issuer has reviewed the rating report and certified that all the information considered in the rating report is accurate and complete in all significant respects, no significant aspects have been concealed and any forward-looking statements are based on plausible, verifiable and current data and were prepared by the issuer exercising reasonable and commercial care. The issuer's representatives have issued a written certification of completeness to Euler Hermes Rating GmbH. However, the issuer cannot be held liable if actual results differ from the forward-looking statements presented in this document, particularly the projections. Forward-looking statements and projections may be adversely affected by unforeseeable events and changes in the economic environment. Euler Hermes Rating GmbH assumes no liability for the accuracy of the information it considers when issuing a rating and extends no guarantee whatsoever that the information is explicitly or implicitly correct, timely, complete, suitable for the market or fit for any particular purpose.

The rating is published on Euler Hermes Rating GmbH's website (www.eulerhermes-rating.com) or published for subscribers (e.g. on a portal) and will be followed by a subsequent one-year monitoring process. During this period, the issuance, the issuer and the sector and business environment in which it operates will remain under observation. The representatives of the issuer remain subject to a full disclosure obligation during this period. Any change in Euler Hermes Rating GmbH's rating assessment will result in a change in the published rating notation, meaning that this notation represents the current rating assessment at all times. The rating will only remain published after the end of the monitoring period if a follow-up rating is performed.

Please note that summaries of contracts, laws and other documents contained in the rating report cannot replace careful study of the complete texts. Euler Hermes Rating GmbH cannot guarantee that the information used to prepare this report has not changed since it was collected and is still accurate at the time of publication. Euler Hermes Rating GmbH is under no obligation to complete the information that it considered when issuing the rating.

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Euler Hermes Rating GmbH

Hamburg, 15 March 2021