

Rating object

TenneT Holding B.V.

Long term local currency senior unsecured issues, issued by TenneT Holding B.V.

Rating incl. outlook / watch

A / stable

A / stable

The present full rating is, in the regulatory sense, a public unsolicited rating.

Date of inception / disclosure to rated entity / maximum validity:

Rating object	Date of inception	Disclosure to rated entity	Maximum validity
TenneT Holding B.V.	11.08.2022	12.08.2022	Until withdrawal of the rating
Long term local currency senior unsecured issues, issued by TenneT Holding B.V.	11.08.2022	12.08.2022	Until withdrawal of the rating

There occurred no changes after the communication of the rating to the rating object.

Rating summary:

Creditreform Rating has affirmed the unsolicited corporate issuer rating as well as the unsolicited corporate issue rating of TenneT Holding B.V. at A. The Watch UNW has been withdrawn and replaced with a stable outlook. The amendment made to our rating methodology, with regard to the different approach of the industry assessment had a positive effect on the rating result. However, this factor is currently offset by the Group's negative cash-flow generation and the increasing investment pressure, which led to a higher indebtedness and a deterioration of its financial profile. In addition to this report, we also refer to the full rating report of 17 November 2021, which contains further relevant information with respect to the structural, business and financial risk of TenneT Holding B.V.

The unsolicited corporate issuer rating of TenneT Holding B.V. attests a high level of creditworthiness, representing a low default risk. TenneT has a low business risk profile due to the nature of its business, which is backed by the Dutch and German regulatory frameworks. This is further enhanced by its natural monopoly position in its grid area, as the only TSO in the Netherlands and one of four in Germany. These factors lead to relatively predictable revenues, cash-flows, and generally to stable financial performance altogether. Additionally, the Group's high systemic importance, and its close relationship with the Dutch government, have a positive influence on the rating. These factors are partially offset by the rising investment needs of TenneT, which have led to negative FCF generation and increasing indebtedness over the past few years. The Group expects investments to increase to EUR 5 – 6 billion annually, which will put the Group's cash-flows under further pressure. If TenneT does not take appropriate action, its financial profile will continue to deteriorate, leading to a situation in which its current rating will not be sustainable. However, the Dutch government has budgeted EUR 4.25 billion over the period of 2023 – 2030, which will only be provided when needed to maintain its current credit rating with Moody's and Standard and Poor's. The capital contributions made in the past and the budgeted capital contribution by the Dutch state in our opinion confirms the close relationship between TenneT and the Dutch state.

The regulatory returns for the Group continue to be under pressure for both regulatory regimes. On 21 October 2021 the BNetzA published the final determination of the imputed rate of return on equity. The BNetzA will decrease the return on equity during the new regulatory period, which will start in 2024 from 6.91% to 5.07% for new assets and from 5.12% to 3.51% for older assets. This decision of the regulator will put pressure on the allowed returns for the German regulatory activities. TSO Germany will appeal against the decision of the BNetzA. As TSO Germany also needs considerable investments the Group is looking for sustainable equity solutions for TenneT Germany. However, the Group does not expect that it will need these equity solutions before the start of the new regulatory period.

During the 2021 business year TenneT generated revenues of EUR 5,524 million (2020: EUR 5,025 million), EBITDA of EUR 828 (2020: EUR 2,370 million), EBIT of EUR -337 million (2020: EUR 1,296 million) and EAT of EUR -320 million (2020: EUR 837 million). The decrease in operating profit was caused by a significant increase in grid expenses due to higher costs related to feed-in management, transmission restrictions, grid losses and re-dispatch costs based on both higher energy prices and more transmission restrictions. The higher grid expenses are predominantly covered by the tariff methodologies in both Germany and the Netherlands and will therefore be covered in the tariffs over the coming years. As a result, the underlying revenue during the 2021 business year increased significantly to EUR 6,367 million (2020: EUR 4,450 million). The underlying figures match regulatory revenues and expenses in the corresponding reporting period, and defers certain income items until used for investment or tariff reductions. It adjusts revenues and costs that will be incorporated or settled via tariffs in subsequent years and provides a more complete view of the financial situation. Based on underlying figures the operating profit realized was EUR 834 million (2020: EUR 910 million), which shows a more stable development than the figures based on IFRS.

During the 2021 business year the Company generated negative FCF excluding EEG working capital of EUR -3.488 million (2020: EUR -1,424 million), leading to an increase of indebtedness of EUR 1,238 million during the 2021 business year. This rising indebtedness, as well as the negative result, in combination with the issued dividends caused the Group's adjusted equity to decrease to EUR 6,356 million (2020: EUR 7,150 million), resulting in a decrease in the equity ratio to 20.50% (2020: 26.74%).

The ongoing high energy prices also dramatically raised grid expenses in 2022 resulting in a negative IFRS operating result. During the first half of 2022, the Group generated revenues of EUR 3,867 million (H1 2021: EUR 2,482 million), reported EBIT of EUR -685 million (H1 2021: EUR 300 million) and reported EAT of EUR -525 million (H1 2021: EUR 153 million). However, underlying revenues increased to EUR 4,975 million (H1 2021: EUR 2,596 million), since the increased grid expenses will largely be reimbursed through future tariffs. This then resulted in underlying operating profit of EUR 579 million (H1 2021: EUR 431 million). The Group's equity decreased further following the negative IFRS result, and dividends issued of EUR 179 million. Indebtedness also continued to increase by EUR 2,761 million due to TenneT's investment program. The slowly deteriorating financial profile has a negative effect on the rating, but the commitment of the Dutch government continues to be a stabilizing factor.

Primary key rating drivers:

- + Supportive regulatory framework in both the Netherlands and Germany
- + Natural monopoly in the grid area (Monopoly in the Netherlands; natural monopoly in Germany)
- + Relatively stable and predictable revenue and cash-flow generation due to regulated activities
- + Close relationship with the Dutch government (CRA sovereign rating of the Kingdom of the Netherlands: **AAA / stable** as of 17.06.2022)
- + Good capital market access
- + The Dutch state budgeted additional capital contributions to prevent TenneT's financial profile from further deteriorating
- + Issuance of hybrid securities; keeping the Group's equity base stable
- + Distribution of federal grants stabilized the Group's EEG accounts; redemption of EEG-related loans, reducing leverage

- High dependency on the regulatory frameworks; highly sensitive to regulatory changes
- Ongoing high capital investments, putting negative pressure on the Group's cash-flow generation
- Decision regarding the lowering of the rate of return on equity for the next German regulatory period
- Liquidity risks in relation to the pre-finance obligation of the feed-in volumes of renewable energy
- Reduction in allowed income from 2022 onwards for the Dutch regulated activities following the publication of the new regulatory framework in the Netherlands (2022 – 2026); TenneT will appeal against the decision of ACM (Autoriteit Consument & Markt)
- Negative free cash flow generation due to ramp-up of investments following more stringent climate targets

ESG-factors

CRA generally considers ESG factors (environment, social and governance) within its rating decisions. In the case of TenneT Holding B.V., we have not identified any ESG factors with significant influence.

As a transmission system operator active within the Netherlands and Germany, TenneT plays a central role in the energy transition in Europe. It faces heightened risk of increasing investment pressure following changing or new legislation, or policies with regard to national and European climate targets. The "European Green Deal" announced its new targets in 2019 and now aims to reduce carbon emissions within the European Union by 55% instead of 40% by 2030. This will most likely lead to the expectation that the Dutch and German governments further accelerate their CO2 reduction efforts, which in turn will lead to increased investment pressure for TenneT. The Group currently expects annual investments to increase to EUR 5 – 6 billion within the next 5 years. The efforts of TenneT in the energy transition will make large contributions to the Dutch and German CO2 reduction targets.

To align its financial policy with its sustainability strategy, TenneT has developed a Green Financing framework. The Green Financing instruments under this program are linked to renewable energy projects defined in the EU taxonomy. In this way, the Company hopes to contribute to sustainable solutions for the Netherlands and Germany.

A general valid description of Creditreform Rating AG, as well as a valid description of corporate ratings for understanding and assessing ESG factors in the context of the credit rating process, can be found [here](#).

Rating scenarios:

Please note: The scenarios are based on information available at the time of the rating. Within the forecast horizon, circumstances may occur that could lead to a change of the rating out of the indicated range.

Best-case scenario: A

In our best-case scenario for one year, we assume a rating of A. We believe an upgrade of the rating within the time-horizon of a year to be unlikely. This assessment is primarily based on the negative FCF generation of the Group, in combination with its current regulatory framework and increasing investment pressure.

Worst-case scenario: A-

In our worst-case scenario for one year, we assume a rating of A-. In this scenario we assume a noticeable decrease in the Group's underlying financial performance following reduced allowed income due to the roll-over of the regulatory framework in the Netherlands. Investment pressure for the Group is ongoing, leading to a significant increase in investment, thus deteriorating the financial profile.

Analysts / Person approving (PAC):

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Initial rating:

Rating object	Event	Rating created	Publication date	Monitoring until	Result
Corporate Issuer Rating of TenneT Holding B.V.	Initialrating	17.11.2021	www.creditreform-rating.de	31.06.2022	A / stable
LT LC Senior Unsecured Issues issued by TenneT Holding B.V.	Initialrating	17.11.2021	www.creditreform-rating.de	31.06.2022	A / stable

Status of solicitation and information basis:

The present rating is, in the regulatory sense, a public **unsolicited** rating. The rating object participated in the creation of the rating as follows:

Unsolicited Corporate Issuer / Issue Rating	
With rated entity or related third party participation	No
With access to internal documents	No
With access to management	No

Rating methodology / Version / Date of application:

Rating methodology	Version number	Date
Corporate Ratings	2.4	01.07.2022
Government-related Companies	1.0	19.04.2017
Non-financial Corporate Issue Ratings	1.0	October 2016
Rating Criteria and Definitions	1.3	January 2018

Regulatory requirements:

In 2011 Creditreform Rating AG was registered within the European Union according to EU Regulation 1060/2009 (CRA-Regulation). Based on the registration Creditreform Rating AG (CRA) is allowed to issue credit ratings within the EU and is bound to comply with the provisions of the CRA-Regulation. The rating¹ was not endorsed by Creditreform Rating AG (Article 4 (3) of the CRA-Regulation).

Conflict of interests

No conflicts of interest were identified during the rating process that might influence the analyses and judgements of the rating analysts involved or any other natural person whose services are placed at the disposal or under the control of Creditreform Rating AG and who are directly involved in credit rating activities or in approving credit ratings and rating outlooks.

In the event of providing ancillary services to the rated entity, Creditreform Rating AG will disclose all ancillary services in the credit rating report.

Rules on the presentation of credit ratings and rating outlooks

The approval of credit ratings and rating outlooks follows our internal policies and procedures. In line with our "Rating Committee Policy", all credit ratings and rating outlooks are approved by a rating committee based on the principle of unanimity.

To prepare this credit rating, Creditreform Rating AG has used following substantially material sources:

Corporate issuer rating:

1. Annual report
2. Website
3. Internet research

Corporate issue rating:

1. Corporate issuer rating incl. information used for the corporate issuer rating
2. Documents on issues / instruments

There are no other attributes and limitations of the credit rating or rating outlook other than those displayed on the Creditreform Rating AG website. Furthermore, Creditreform Rating AG considers as satisfactory the quality and extent of information available on the rated entity. With respect to the rated entity, Creditreform Rating AG regarded available historical data as sufficient.

Between the time of disclosure of the credit rating to the rated entity and the public disclosure, no amendments were made to the credit rating.

The Basic Data Information Card indicates the principal methodology or version of methodology that was used in determining the rating, with a reference to its comprehensive description.

In cases where the credit rating is based on more than one methodology or where reference only to the principal methodology might cause investors to overlook other important aspects of the credit rating, including any significant adjustments and deviations, Creditreform Rating AG explains this fact in the credit rating report and indicates how the different methodologies or other aspects are taken into account in the credit rating. This information is integrated in the credit rating report.

The meaning of each rating category, the definition of default or recovery and any appropriate risk warning, including a sensitivity analysis of the relevant key rating assumptions such as mathematical or correlation assumptions, accompanied by worst-case scenario credit ratings and best-case scenario credit ratings are explained.

The date at which the credit rating was initially released for distribution and the date when it was last updated, including any rating outlooks, is indicated clearly and prominently in the Basic Data Information Card as a "rating action"; initial release is indicated as "initial rating", other updates are indicated as an "update", "upgrade" or "downgrade", "not rated", "confirmed", "selective default" or "default".

In the case of a rating outlook, the time horizon is provided during which a change in the credit rating is expected. This information is available within the Basic Data Information Card.

In accordance with Article 11 (2) EU-Regulation (EC) No 1060/2009, a registered or certified credit rating agency shall make available, in a central repository established by ESMA, information on its historical performance data including the rating transition frequency and information about credit ratings issued in the past and on their changes. Requested data are available at the ESMA [website](#).

¹ In these regulatory requirements the term "rating" is used in relation to all ratings issued by Creditreform Rating AG in connection to this report. This may concern several companies and their various issues.

An explanatory statement of the meaning of Creditreform Rating AG's default rates are available in the credit rating methodologies disclosed on the website.

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