

23 October 2023 – Neuss, Germany

Rating Action / Update:

Creditreform Rating has confirmed the unsolicited corporate issuer rating of Eurogrid GmbH at A. The outlook has been changed to negative.

Creditreform Rating (CRA) has confirmed the unsolicited, public corporate issuer rating of Eurogrid GmbH – hereinafter also referred to as Eurogrid, or the Company – and the unsolicited corporate issue ratings of long-term local currency senior unsecured notes issued by Eurogrid GmbH at A. The outlook has been changed from stable to **negative**. The initial unsolicited short-term rating was set to L2 (high level of liquidity).

Eurogrid GmbH is a holding company which holds a 100% interest in the German transmission system operator (TSO) 50Hertz Transmission GmbH – hereinafter also referred to as 50Hertz – and does not have any own operating activities. The operating activities are all conducted by its subsidiaries 50Hertz Transmission GmbH and 50Hertz Offshore GmbH. 50Hertz operates in Northern and North-Eastern Germany as a TSO. Its activities encompass operating, maintaining and developing the transmission network, which has a length of approximately 10,500 km and an installed capacity of around 65,306 MW (of which approximately 39,500 MW renewables, thereof around 21,000 MW wind, on- and offshore).

Current relevant factors for the rating

The following considerations were of specific relevance for the rating assessment:

- + Natural monopoly in its grid area (one of four TSO's in Germany)
- + Supportive regulatory framework in Germany due to the economic importance of the Company
- + Expected adjustments in regulatory framework reflecting increased interest rates and overall costs in Germany
- + Predictable cash flows generated from regulated activities
- + Capital increase of EUR 250 million in 2022 and EUR 120 million in 2023
- + Improved in operating performance in 2022 and in the first half of 2023
- + Good access to capital markets

- Unsolicited corporate issuer rating of Elia Group SA/NV of A / negative limits the unsolicited corporate issuer rating of Eurogrid GmbH
- Significant growth in investment levels: the CAPEX programme of EUR 8.7 billion over the period 2023 - 2027 (up 55.4% compared to the previous plan)
- Negative free cash flow
- High leverage and net total debt / EBITDA adj. ratio

Analysts

Natallia Berthold
Lead Analyst
N.Berthold@creditreform-rating.de

Sabrina Mascher de Lima
Co-Analyst
S.Mascher@creditreform-rating.de

Neuss, Germany

- Ambitious investment plan will continue to exert negative pressure on the Company's financial profile
- Ongoing global economic uncertainty and generally increasing (geo-)political risks

ESG-criteria:

CRA generally takes ESG factors (environment, social and governance) into account within its rating decisions. In the case of Eurogrid GmbH we have not identified any ESG factors with significant influence.

As a transmission system operator, 50Hertz aims to go beyond its value chain activities by actively promoting the integration of more renewable energies and supporting consumers in decarbonization and electrification. This is reflected in its strategic goal to achieve 100% renewable energy coverage in its network area by 2032. In this context, the Company is enhancing its digital capabilities and collaborating with various stakeholders to accelerate the use of renewable energy sources and support industries in their decarbonization efforts.

In 2022, 50Hertz recorded a share of approximately 65% of renewable energies in electricity consumption in its grid area in 2022, the highest value in 20 years. This increase is partly due to a higher wind yield compared to the previous year.

Moreover, the Company is committed to avoiding and reducing its direct CO2 emissions, enhancing biodiversity around its facilities, advancing workplace safety and diversity, and working with suppliers and partners to reduce its carbon footprint and promote circular material use and eco-design.

In cooperation with its partners, 50Hertz taps location potential on land and at sea, using technical possibilities for efficient electricity transmission and relying on digitalization for safe and efficient system control, electricity market development and plant operation. In this way, 50Hertz makes an effective contribution to combating climate change and strengthening sustainable industrial locations.

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 result

The current rating attests a high level of creditworthiness to Eurogrid GmbH, representing a low default risk for the Company.

Eurogrid operates via 50Hertz Transmission GmbH in a regulated environment, and is supported by a transparent supportive regulatory framework which incentivizes the TSOs to manage costs efficiently, leading to relatively stable revenues, sufficient margins and predictable cash flows in its grid business. Additionally, 50Hertz has a high degree of systemic importance, as it provides essential services to the population, operates in a natural monopoly in its region and plays an active role in the energy transition in Germany.

The controlling shareholder of the Company is Elia Group SA/NV (CRA: **A / negative** as of 23 October 2023), based in Belgium, with 80% of the Eurogrid's share capital. As Elia Group SA/NV

ESG factors are factors related to environment, social issues and governance. For more information, please see the section "Regulatory requirements". CRA generally takes ESG relevant factors into account when assessing the rating object and discloses them when they have a significant influence on the creditworthiness of the rating object which could lead to a change in the rating result or the outlook.

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.

has a large influence on the financial and strategic alignment of the Company, the rating of Eurogrid GmbH is constrained by the rating of Elia Group SA/NV. The remaining 20% is indirectly owned by the German government via the KfW, which has a slightly positive influence on the corporate rating.

Outlook

The one-year outlook for the corporate rating is **negative**. The adjustment of the outlook is mainly driven by the updated investment plan for 2023-2027, which foresees a further significant increase in CAPEX from EUR 5.6 billion to EUR 8.7 billion. The acceleration of investments will lead to an increase in debt in the coming years (as already visible in the interim financial report for the first half of 2023), which may put pressure on the Company's cash flow and subsequently have a negative impact on its profitability. We continue to assume that the regulatory stability and support needed to finance these investments will remain in place, although we expect a negative change in leverage and a deterioration in financial ratios. Additionally, as our future ratings of Eurogrid are constrained by the unsolicited corporate issuer rating of Elia Group, a downgrade of the Elia Group would lead to a downgrade of Eurogrid's corporate issuer rating.

Best-case scenario: A

In our best-case scenario for one year, we assume a corporate issuer rating of A. We believe that a rating upgrade within the time horizon of one year remains unlikely based on the Company's ambitious investment plan. We expect Eurogrid's financial profile to deteriorate in the short term, but it will be partially offset by solid operating results, leading to an overall stable performance. The rating is currently constrained by the unsolicited corporate issuer rating of Elia Group SA/NV (CRA: **A / negative** as of 23 October 2023), as we believe that it has a large influence on the Company's financial and strategic alignment.

Worst-case scenario: A-

In our worst-case scenario for one year, we assume a rating of A-. Such a scenario would occur if the unsolicited corporate issuer rating of Elia Group SA/NV were to be downgraded, or if the leverage ratio were to increase more than expected, negatively affecting Eurogrid's financial ratios and deteriorating the Company's credit profile. Another significant upward adjustment in the investment plan could also have a detrimental effect on the Company's rating.

Business development and outlook

Table 1: Financials of Eurogrid GmbH | Source: Annual Report 2022, standardized by CRA

Eurogrid GmbH Selected key figures of the financial statement analysis Basis: Annual accounts and report of 31.12. (IFRS)	CRA standardized figures ¹	
	2021	2022
Revenue (million EUR)	1,621.80	2,466.80
EBITDA (million EUR)	533,2	611,8
EBIT (million EUR)	272.90	314.20
EAT (million EUR)	165.40	236.10
EAT after transfer (million EUR)	132.30	188.90
Total assets (million EUR)	10,272.30	11,696.60
Equity ratio (%)	19.40	19.89
Capital lock-up period (days)	124.59	132.10
Short-term capital lock-up (%)	64.96	49.51
Net total debt / EBITDA adj. (factor)	10.17	9.80
Ratio of interest expenses to total debt (%)	0.45	0.50
Return on Investment (%)	1.95	1.79

The global economic environment in 2022 was marked by heightened geopolitical tensions due to the outbreak of war in Ukraine and the subsequent economic sanctions against Russia, which were reflected in high and volatile commodity and energy prices, and which led to rising inflation and interest rates. As a result of these developments, Eurogrid recorded significant cost increases, especially for system services, which were neutralized by regulatory models as well as the netting of offsetting effects. Therefore, Eurogrid could not identify any adverse operational impacts. It should be noted, however, that at the European level there have been increased efforts to reduce dependence on Russian natural gas and fossil fuels. In this context, the German authority has clearly signaled its willingness to accelerate the transition to renewable energies and to promote the energy transition. This has led to an expansion of the Company's investment programme in the medium term.

Despite these challenging market conditions, Eurogrid was able to report a solid business performance in the year under review. In the fiscal year 2022, Company's revenue grew by 52.1% to EUR 2,467 million. This increase was largely due to energy revenues driven by the continued rise in energy prices, and the net regulatory income from the settlement mechanism. EBITDA rose by 14.7% to € 612 million. Several factors contributed to this increase. The growing asset base led to the investment remuneration of EUR 78 million, while operating costs were reduced. In addition, the Company benefited from capitalized dismantling costs that were through under the offshore cost-plus regulation. The additional personnel costs were largely compensated for by the higher own work capitalized. Furthermore, EBITDA profited from one-off gains from regulatory settlements and related provisions. The EBIT reached EUR 314 million, which is 15.1%

¹ For analytical purposes, CRA adjusted the original values in the financial statements in the context of its financial ratio analysis. For example, when calculating the analytical equity ratio, deferred tax assets, goodwill (entirely or partly), and internally-generated intangible assets are subtracted from the original equity, whilst deferred tax liabilities are added. Net total debt takes all balance sheet liabilities into account. Therefore, the key financial figures shown often deviate from the original values of the company.

higher than the previous year. As a result of this favorable operating performance and the increase in the net financial result to EUR 27 million (2021: EUR -35 million) due to the revaluation of long-term provisions, net profit grew by 42.7% to EUR 236 million compared to the previous year.

Total assets rose by EUR 1,293 million compared with 2021, mainly due to favorable development of the EEG business and the execution of the investment programme. The Company invested EUR 1,086 million in 2022, 27.6% more than in the previous year (2021: EUR 851 million), clearly exceeding the expectations set for 2022 in the form of a target corridor of EUR 820 to 920 million. However, free cash flow amounted to EUR -359 million, significantly impacted by the extensive investment programme and delays in recovering the high energy costs. Cash flow on the EEG account only partially compensated for these effects (EUR 826 million). To alleviate the rising electricity costs for households and companies, parliament decided to reduce the EEG surcharge to zero as of 1 July 2022. In the future, costs for supporting renewable energy sources will be financed through the Energy and Climate Fund. 50Hertz will continue to act as trustee for this fund.

Eurogrid's net financial debt increased by EUR 240.4 million to EUR 1,255 million compared to the end of 2021, as the implementation of the investment programme was partly financed from existing liquidity, while the operating cash flow was negatively impacted by high electricity costs. The EEG cash inflow from higher electricity prices only partially offset these effects. As of December 2022, the EEG cash position amounted to EUR 2,936 million. In September 2022, 50Hertz issued a second green bond, raising EUR 750 million with a 9-year maturity and a fixed interest rate of 3.28%.

Despite solid revenues and profit performance in 2022, the overall analysis of the financial key ratios showed a decline compared to the previous year. The main reason for this was the significant decrease in the gross profit margin, attributed to increased costs for covering electricity losses and increased activations to balance the grid against the backdrop of high energy prices. Also, the increase the trade-accounts-payable ratio had an adverse effect. In contrast, net total debt / EBITDA adj. of 9.8 (2021: 10.17), and the equity ratio of 19.89% (2021: 19.40%) reported a slight improvement. Nevertheless, we consider the improvement in the equity ratio to be temporary, as it is mainly due to the capital increase of EUR 250 million.

In view of accelerated implementation of the investment plans and the current inflationary environment, Eurogrid has increased the CAPEX programme for 2023-2027 to a total of EUR 8.7 billion, representing an increase of 55.4% compared to the previous plan. The significant increase in capital expenditure will put pressure on Eurogrid's free cash flow, and we cannot, therefore, rule out an increase in the Group's borrowings, which could lead to a deterioration in the debt ratio and other financial ratios. Moreover, the Company's ability to reduce debt will be limited, as reflected in the high net total debt/EBITDA adj. ratio.

In the first half of 2023, Eurogrid delivered positive business development despite a slight decline in revenue (see Table 2). The Company's solid profit performance was driven by higher investment remuneration from asset growth and a reduction in operating costs, although this was partially offset by a decline in its financial results.

Table 2: The development of business of Eurogrid GmbH | Source: 2023 Half-Year Financial Report

Eurogrid GmbH				
In million EUR	H1 2022	H1 2023	Δ	Δ %
Revenue	1,197.9	1,150.3	-47.6	-4.0
EBITDA	293.9	352.8	58.9	20.0
EBIT	151.5	193.9	42.4	28.0
EAT	98.8	112.7	13.9	14.1
In million EUR	2022	2023	Δ	Δ %
Total assets	11,841.0	12,921.9	1,080.9	9.1
Equity attributable to owners of the company	1,746.8	1,600.3	-146.5	-8.4
Net financial debt	1,014.9	1,975.7	960.8	94.7

As of 30 June 2023, the free cash flow amounted to EUR -580 million and was significantly impacted by the Company's substantial investment programme, along with the cash outflow for EEG and similar mechanisms (KWK² and SPB³) as lower energy prices led to lower cash inflows.

In March 2023, Eurogrid entered into a EUR 600 million ten-year syndicated green loan with seven banks, of which EUR 120 million had been drawn by the end of June 2023. In April 2023, the Company issued a EUR 650 million bond under the DIP programme. As a result, Eurogrid's total loans and borrowings liabilities increased by EUR 776.6 million to EUR 5,400.2 million as of 30 June 2023 (31.12.2022: EUR 4,623.6 million).

The Company's overall liquidity position remains good, but has been severely impacted by EEG⁴ account and similar mechanisms. As of 30 June 2023, the Company had cash and cash equivalents of EUR 3,424.5 million (31.12.2022: EUR 3,368.3 million).

Eurogrid operates in a regulatory environment and is exposed to regulatory changes. The new five-year regulatory framework in Germany will start in 2024. The current regulatory mechanism in Germany is defined by the ARegV⁵. According to the ARegV, grid tariffs are defined to generate a pre-determined "revenue cap" set by the Federal Network Agency for each TSO and for each regulatory period. In 2021, the BNetzA⁶ determined the return on equity applicable to the fourth and upcoming regulatory period (2024-2028). The values have significantly decreased compared to the third regulatory period, with returns set at 3.51% (as opposed to 5.12% in the third period) for investments made before 2006, and 5.07% (instead of 6.91% in the third period) for investments made since 2006; however, given the considerable change in the interest rate environment since October 2021, the ROE has been revised and is expected to increase from 5.07% to 7.09% in 2024. Other parameters, such as the individual efficiency factor, which is subject to a national TSO benchmark, and the general sector productivity factor, are yet to be determined.

² Combined Heat and Power

³ Cap on energy prices

⁴ German Renewable Energy Sources Act

⁵ Ordinance on Incentive Regulation (Verordnung über die Anreizregulierung der Energieversorgungsnetze)

⁶ Federal Network Agency (Bundesnetzagentur)

Irrespective of the revenue cap, 50Hertz receives compensation for costs related to its renewable energy obligations, including EEG⁷ and CHP/KWKG⁸ obligations, offshore liabilities, and its obligations stemming from the electricity price brake. Various surcharges (levies) have been introduced for this purpose, subject to specific regulatory mechanisms aimed at achieving a balanced treatment of costs and revenues. Against this background, we believe that the German regulatory framework for the coming regulatory period provide Eurogrid with a suitable environment conducive to the Company's growth, efficiency and sustainable operations, and in which Eurogrid will be able to continue to generate solid revenues with adequate margins, as well as stable and relatively predictable cash flows.

Despite the favorable business model and supportive regulatory framework, we consider Eurogrid's financial risk to be low to moderate due to its high level of indebtedness and limited capacity for debt reduction. Still, the Company's adjusted investment programme is substantial, and we assume that some of the planned investments will be financed by additional borrowing. We expect the acceleration of capital expenditure to put pressure on cash flow, potentially leading to a further increase in the net debt to EBITDA ratio, and weakening credit metrics. Given these circumstances, the rating outlook has been revised from stable to negative.

Further ratings

Based on the long-term issuer rating, and taking into account our liquidity analysis, the short-term rating of Eurogrid GmbH was initially set at **L2** (standard mapping), corresponding to an assessment of a high level of liquidity for one year.

The rating objects of the issue rating are exclusively the long-term senior unsecured Notes, denominated in euro, issued by Eurogrid GmbH, which are included in the list of ECB-eligible marketable assets. The Notes were issued under the Debt Issuance Programme (DIP), with the latest basis prospectus of 14.04.2023. This DIP amounts to EUR 15 billion. The notes and coupons under the DIP constitute unsecured and unsubordinated obligations of the issuer, and rank at least pari passu among themselves and with all other present and future unsecured obligations of the issuer. Additionally, the Notes benefit from a negative pledge provision. All notes issued under this programme are guaranteed by 50Hertz Transmission GmbH and 50Hertz Offshore GmbH.

We have provided the long-term local currency senior unsecured Notes issued by Eurogrid GmbH with an unsolicited rating of **A / negative**.

Long-term local currency senior unsecured notes issued by Eurogrid GmbH which have similar conditions to the current DIP, are denominated in euro and included in the list of ECB-eligible marketable assets, generally receive the same ratings as the current LT LC senior unsecured notes issued under the DIP. Notes issued in any currency other than euro, or other types of debt instruments, have not yet been rated by CRA. For a list of all currently valid ratings and additional information, please consult the website of Creditreform Rating AG.

⁷ German Renewable Energy Sources Act

⁸ Combined Heat and Power Act

Table 3: Overview of CRA Ratings | Source: CRA

Rating Category	Details	
	Date of rating committee	Rating
Eurogrid GmbH	23.10.2023	A / negative / L2
Long-term Local Currency (LC) Senior Unsecured Issues issued by Eurogrid GmbH	23.10.2023	A / negative
Other	--	n.r.

Appendix

Rating history

The rating history is available under <https://www.creditreform-rating.de/en/ratings/published-ratings.html>.

Table 4: Corporate Issuer Rating of Eurogrid GmbH

Event	Rating created	Publication date	Monitoring until	Result
Initial rating	02.07.2021	08.07.2021	10.03.2022	A / stable

Table 5: LT LC Senior Unsecured Issues issued by Eurogrid GmbH

Event	Rating created	Publication date	Monitoring until	Result
Initial rating	02.07.2021	08.07.2021	10.03.2022	A / stable

Table 6: Short-term Issuer Rating of Eurogrid GmbH

Event	Rating created	Publication date	Monitoring until	Result
Initial rating	23.10.2023	www.creditreform-rating.de	Withdrawal of the rating	L2

Regulatory requirements

The rating⁹ was not endorsed by Creditreform Rating AG (Article 4 (3) of the CRA-Regulation).

The present rating is, in the regulatory sense, an unsolicited rating that is public. The analysis was carried out on a voluntary basis by Creditreform Rating AG, which was not commissioned by the Issuer or any other third party to prepare the present rating.

The rating is based on the analysis of published information and on internal evaluation methods for the assessment of companies and issues. The rating object was informed of the intention of creating or updating an unsolicited rating before the rating was determined.

⁹ 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.

The rating object participated in the creation of the rating as follows:

With Rated Entity or Related Third Party Participation	No
With access to Internal Documents	No
With Access to Management	No

A management meeting did not take place within the framework of the rating process.

The documents submitted and information gathered were sufficient to meet the requirements of Creditreform Rating AG's rating methodologies.

The rating was conducted based on the following rating methodologies and the basic document.

Rating methodology	Version number	Date
Corporate Ratings	2.4	July 2022
Corporate Short-Term Ratings	1.0	June 2023
Government-related Companies	1.1	May 2023
Non-financial Corporate Issue Ratings	1.0	October 2016
Rating Criteria and Definitions	1.3	January 2018

The documents contain a description of the rating categories and a definition of default.

The rating was carried out by the following analysts:

Name	Function	Mail-Address
Natallia Berthold	Lead-analyst	N.Berthold@creditreform-rating.de
Sabrina Mascher de Lima	Analyst	S.Mascher@creditreform-rating.de

The rating was approved by the following person (person approving credit ratings, PAC):

Name	Function	Mail-Address
Tobias Stroetges	PAC	T.Stroetges@creditreform-rating.de

On 23 October 2023, the analysts presented the rating to the rating committee and the rating was determined. The rating result was communicated to the Company on 24 October 2023. There has not been a subsequent change to the rating.

The rating will be monitored until Creditreform Rating AG withdraws the rating. The rating can be adjusted as part of the monitoring, if crucial assessment parameters change.

In 2011, Creditreform Rating AG was registered within the European Union according to EU Regulation 1060/2009 (CRA-Regulation). Based on this registration, Creditreform Rating AG is allowed to issue credit ratings within the EU and is bound to comply with the provisions of the CRA-Regulation.

ESG-factors

You can find out whether ESG factors were relevant to the rating in the upper section of this rating report "Relevant rating factors".

A general valid description for 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](#).

Conflicts 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.

Creditreform Rating AG ensures that the provision of ancillary services does not present conflicts of interest with its credit rating activities and discloses in the final rating reports any ancillary services provided for the rated entity or any related third party. The following ancillary services were provided for the rating entity or for third parties associated with the rated entity:

No ancillary services in the regulatory sense were carried out for this rating object.

For the complete list of provided rating and credit service ancillaries please refer to the Creditreform Rating AG's website: <https://www.creditreform-rating.de/en/about-us/regulatory-requirements.html#non-core-business-activities>.

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](#).

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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Creditreform Rating AG

Contact information

Creditreform Rating AG

Europadamm 2-6
D-41460 Neuss

Phone: +49 (0) 2131 / 109-626
Telefax: +49 (0) 2131 / 109-627

E-Mail: info@creditreform-rating.de
Web: www.creditreform-rating.de

CEO: Dr. Michael Munsch
Chairman of the Board: Michael Bruns

HR Neuss B 10522