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# TenneT Holding B.V.

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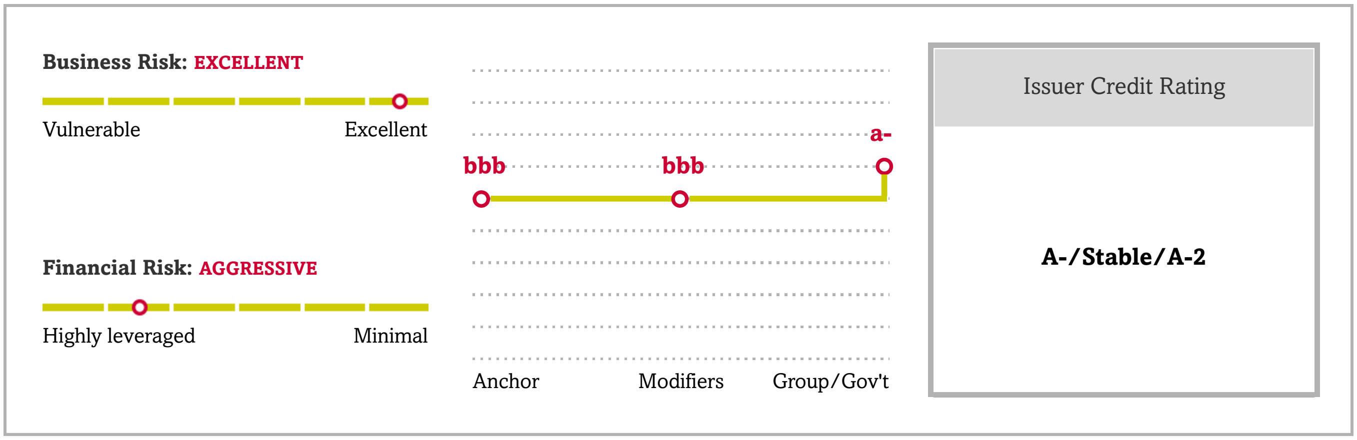
# TenneT Holding B.V.




## Credit Highlights

### Overview

| Key strengths | Key risks |
|---|---|
| Almost all earnings (over 95% of EBITDA, €2 billion based on underlying numbers) are derived from low risk regulated transmission activities in Germany (about 70% of 2021 EBITDA) and the Netherlands (30%). | Continued pressure on profitability stemming from low weighted average cost of capital (WACC) of about 2.5% in the Netherlands and an expected reduction of at least 160 basis points in pre-tax return on equity in Germany from the previous level of 5.12% (for assets built before 2006). |
| High regulatory visibility in Germany and the Netherlands, where the current five-year regulatory periods run until 2023 and 2026, respectively. | Investment of more than €14.5 billion over 2022-2024 to support the energy transition in Germany (two-thirds of total capex) and the Netherlands (one-third). |
| 100% ownership by the Dutch state, which provides ongoing credit support via equity contributions. Dutch ownership translates into two notches of support to the stand-alone credit profile. | Significant increase in annual capital expenditure (capex) to more than €5.0 billion per year on average over 2022-2024 (vs. €3.7 billion in 2021) will lead to an expected increase in adjusted debt of about €10 billion in 2024 to €25 billion, compared with about €16.5 billion in 2021. |

***TenneT Holding B.V. will continue to benefit from high regulatory visibility in the Netherlands and Germany.*** About 95% of the company's profits are generated from fully regulated power transmission activities in Germany (which accounted for 70% of the group's EBITDA in 2021) and the Netherlands (30% of EBITDA in 2021).

In the Netherlands, the current five-year regulatory period runs until 2026. Despite the significant reduction in the pre-tax weighted average cost of capital (WACC), which fell to below 2.5% for both new and old assets, compared with 3.0% at the end of the previous regulatory period, we do not expect TenneT's operating performance to dip. This is because efficiency rates are likely to remain well above 80% at the end of the regulatory period (for which TenneT has appealed the regulatory proposal. TenneT will also benefit from increases in the risk-free rate due to the ex-post settlement of that rate.

In Germany, the current five-year regulatory period will end in 2023. The regulator, BNetzA, has already published the pre-tax return on equity (ROE) for the new regulatory period, which will start in 2024. The new regime will reduce remuneration for assets built before 2006 by about 160 basis points (bps), from the previous level of 5.12%, and by about 180 bps for new assets, from 6.91%. We note that the cost recovery in Germany takes longer than in other European regulatory frameworks that we assess as "strong."

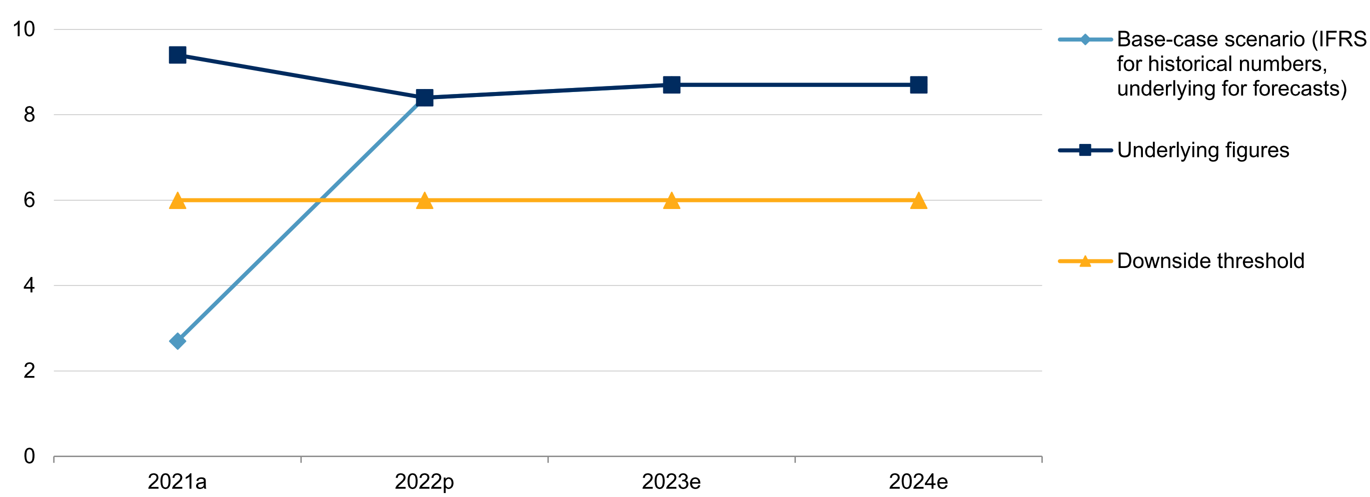
***TenneT's capital expenditure (capex) will increase to support energy transition in Germany and the Netherlands, leading to an expected increase in debt of about €10 billion by 2024 versus 2021.*** The company will invest more than €14.5 billion over 2022-2024. This translates into annual capex of more than €5.0 billion, up from about €3.7 billion in 2021. Negative free cash flow after capex and dividends will be close to €3.0 billion per year over 2022-2024, while adjusted debt will likely increase to about €25 billion by the end of 2024, from about €16.5 billion in 2021. The evolution of adjusted debt will depend on the timing and the amount of the capital increase from the Dutch government, which in September 2021 included €4.25 billion of equity contributions in the State budget.

***Despite a strong operating performance in 2021, International Financial Reporting Standards (IFRS)-adjusted FFO to debt was well below the threshold for the current rating.*** TenneT posted strong operating performance in 2021 with no material delays in the commissioning of new lines and onshore grid availability close to 100%. However, higher energy prices and transmission restrictions weighed on the group's adjusted EBITDA, which fell to €890 million on an IFRS basis, from €2.4 billion in 2020, while adjusted funds from operations (FFO) to debt declined to 2.7%, well below the 6% threshold for the current rating. This was because IFRS records revenues for a given year based on tariff charges derived from historical rates. Based on regulatory accounting, which considers revenues and charges approved by the regulator, TenneT's reported EBITDA would have been about €2.0 billion and the adjusted FFO to debt would have been 9.4%. TenneT will effectively recover those extra costs via its tariffs, but only after a delay of a couple of years. The effects of that delay on results in 2022 and 2023 will be particularly strong given the current energy market conditions.

Any delay in recovery of these costs could lower the credit metrics in 2022 and 2023.

**Chart 1**

**Expected Evolution Of TenneT's Adjusted FFO To Debt Based On Underlying And IFRS Numbers**




FFO--Funds from operations. IFRS--International Financial Reporting Standards. a--Actual. p--Projected. e--Estimate. Source: S&P Global Ratings.

***We expect TenneT's IFRS credit metrics to remain below the rating threshold in 2022, but see a strong rebound in 2023.*** While adjusted FFO to debt in 2022 will likely remain well below the 6% threshold for the current rating based on IFRS numbers, we believe it will material improve from 2023 because:

- TenneT will start to recover the extra costs incurred in the Netherlands, and the higher costs in Germany two years after the current regulatory period ends in 2023;
- The costs incurred in 2022 will be reflected in the tariffs for future periods and thus recovered.

On an IFRS basis, this should result in a weighted average adjusted FFO to debt of above 6%, which is the threshold for the current rating. Based on regulatory figures, we expect TenneT's adjusted FFO to debt to remain well above the 6% threshold during 2022-2024.

***Government support continues to be necessary for TenneT to maintain credit metrics in line with the current rating; this support translates into two notches of uplift to the stand-alone credit profile )SACP).*** TenneT's sole shareholder, the Dutch Ministry of Finance, has a strong track record of supporting the company, including €600 million of capital injections over 2011-2012, and €1.2 billion over 2017-2019.

In September 2021, the Dutch government approved €4.25 billion of additional support for TenneT, which we expect will back the company's growth plans and mitigate the effect of increased capex on credit metrics. In particular, the aforementioned capital increase will have a positive impact of about 150 bps on adjusted FFO to debt in the year when it is implemented, which is 2024 in our base case scenario.

Our rating on TenneT stands two notches above the SACP of 'bbb', based on our view of a moderately high likelihood of extraordinary support, thanks to the group's important role for the Dutch government and its strong link with the Netherlands.

## Outlook: Stable

The stable outlook on TenneT factors in our expectation that operating conditions for power transmission in the Netherlands and Germany will not change in the coming years. This reflects regulation in the Netherlands that is set until 2026, and in Germany where a new regulatory period starting in 2024 is expected to provide continuity with the current period which expires at the end of 2023. Moreover, it also factors in the full recovery of extra costs incurred in 2021. We expect that recovery will occur during 2023 in the Netherlands, and over 2024-2026 in Germany, such that adjusted FFO to debt based on IFRS will be on average above 6%.

Our base case assumes that TenneT's direct owner, the Dutch Ministry of Finance, would consent to lower dividends to mitigate an unexpected increase in the company's already high leverage. Overall, we see a moderately high likelihood that TenneT would receive extraordinary support from the Dutch government in the event of financial distress. The government has already committed, in September 2021, to provide €4.25 billion to support TenneT. Our assessment of TenneT's SACP also takes into account the government's ongoing support through measures such as capital contributions.

We assume that TenneT's plans for significant investment and its lower regulated returns will weaken its credit metrics in the coming years. That said, we expect adjusted FFO to debt to remain above our 6% threshold for the 'A-' rating during 2022-2024, based on underlying numbers. We also anticipate that, on an IFRS basis, adjusted FFO to debt could remain well below this threshold in 2022 before rebounding in 2023, due to recovery of higher 2021 operating costs, and recognition of higher energy costs.

### Downside scenario

A downgrade of TenneT would stem from one or a combination of the following factors:

- Should the SACP deteriorate to 'bbb-' or lower. This could occur if changes to either the German or Dutch regulatory framework materially weakened the stability of TenneT's cash flows or profitability, with a less-timely-than-expected recovery of extra costs incurred in 2021.
- Should its adjusted ratio of FFO to debt decline and stay below 6% for a prolonged period of time. This could occur if, for example, TenneT's capex increases further, without offsetting measures, or if there are unexpected delays or cost overruns on existing projects and these are not covered in a timely manner by regulated tariffs.
- If the Dutch government seems less likely to support TenneT, we could lower our rating on TenneT. That said, a one-notch downgrade of the Netherlands would not trigger a downgrade of TenneT, if TenneT's stand-alone credit quality did not weaken.

### Upside scenario

The likelihood of an upgrade is currently remote given TenneT's extensive investment program, which will lead to a material increase in debt and weaken debt-coverage ratios over the medium term. That said, we would consider revising the SACP upward if TenneT demonstrates that it can sustain adjusted FFO to debt of more than 10%.

We would also consider upgrading TenneT, assuming an unchanged SACP, if we considered that the likelihood of extraordinary support from the Dutch government had materially strengthened, although we consider this unlikely in the near term because of the high proportion of TenneT's capex in Germany.

## Our Base-Case Scenario

### Assumptions

German regulated:

- Pre-tax ROE of 5.12% (on assets commissioned before January 2006) and 6.91% (on new assets). For the new regulatory period starting in 2024 we expect ROE of 3.51% for old assets and 5.07% for new assets.
- Sectoral efficiency factor (xgen; productivity target) of 0.9% for the five-year regulatory period over 2019-2023.
- Individual efficiency factor (xind) of 99.92% for the five-year regulatory period over 2019-2023.

Dutch regulated:

- Current regulatory period from 2022 to 2026.
- Regulated expected capital cost allowance (real pre-tax WACC) gradually decreasing to 1.9% in 2026 from 2.0% in 2022 for existing capital; and 1.9% over the same period for new investments.
- Pre-tax real WACC of 2.4% for offshore cables.
- Xind decreasing from 97.28% in 2022 to 89.1% in 2025/2026
- Xgen productivity factor: 0.5% onshore and 0.2% offshore for 2022-2026.

Combined operations:

- A steady rise in revenue as investments in the Netherlands and Germany increase the regulated asset base (RAB). We assume around €14.5 billion of capex over 2022-2024, with about two-thirds of invested in Germany, and about 35% in offshore connections.
- A dividend payout ratio of 35% of the underlying distributable profit, after income allocated to project investors and distributions to hybrid capital holders.
- Further, we do not consider in our base case the recovery of 2021 IFRS (High opex) since we are already considering the underlying figures for the forecast that are based on regulatory accounting.
- We continue to assume restricted cash of €3.2 billion related to the Renewable Energy Sources Act, or EEG, over 2022-2026, which would be in line with 2021.
- A €4.25 billion capital increase in 2024.

### Key metrics

**TenneT Holding B.V.--Key Metrics***

| (Mil. €) | 2021a | 2022f | 2023f | 2024f |
|---|---|---|---|---|
| EBITDA | 896.0 | 1,800-2,000 | 2,100-2,300 | 2,100-2,300 |
| Capital expenditure | 3,711.0 | 3,800-4,300 | 4,800-5,300 | 5,300-5,800 |
| FFO-to-debt (%) | 2.7 | 7.0-8.5 | 7.0-8.5 | 6.5-8.0 |

| TenneT Holding B.V.--Key Metrics* (cont.) | | | | |
|---|---|---|---|---|
| **(Mil. €)** | **2021a** | **2022f** | **2023f** | **2024f** |
| Debt-to-EBITDA (x) | 18.5 | 9.0-10.0 | 9.0-10.0 | 9.0-12.0 |

*All figures adjusted by S&P Global Ratings. Note: 2021 numbers are based on IFRS and forecasts are based on underlying numbers. a--Actual. f--Forecast. FFO--Funds from operations.

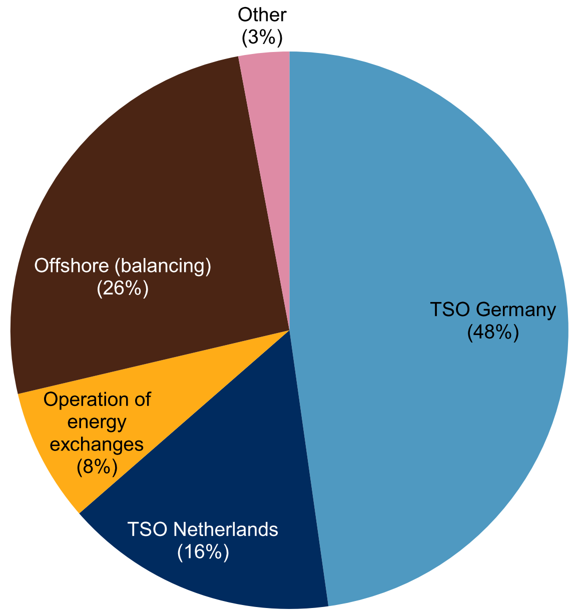
## Company Description

TenneT is a leading European electricity transmission system operator (TSO) serving 42 million end-users in the Netherlands and Germany and operating 16 cross-border interconnectors through about 25 thousand kilometers (km) of high voltage transmission lines. The company's activities are under the oversight of the regulatory authorities in each jurisdiction, the Autoriteit Consument & Markt (ACM) in the Netherlands and Bundesnetzagentur (BNetzA) in Germany. The company generated annual turnover of about €5.5 billion and IFRS EBITDA of about €920 million in 2021 (€1,966 million based on underlying figures); its asset book value totals €32 billion. TenneT is involved in limited nonregulated activities (less than 5% of EBITDA) through its 50% stake in BritNed, a merchant cable operator (Anglo-Dutch interconnector), and the regulated activities of NOKA. The company also has a 25% indirect equity stake in OTC., a 17% stake in EPEX, which is a North West European electricity exchange, and 100% of Relined and NOVEC, two telecommunication infrastructure companies.

Germany accounts for about 70% of TenneT's EBITDA and Netherlands 30%. TenneT is wholly owned by the Dutch Ministry of Finance.

**Chart 2**

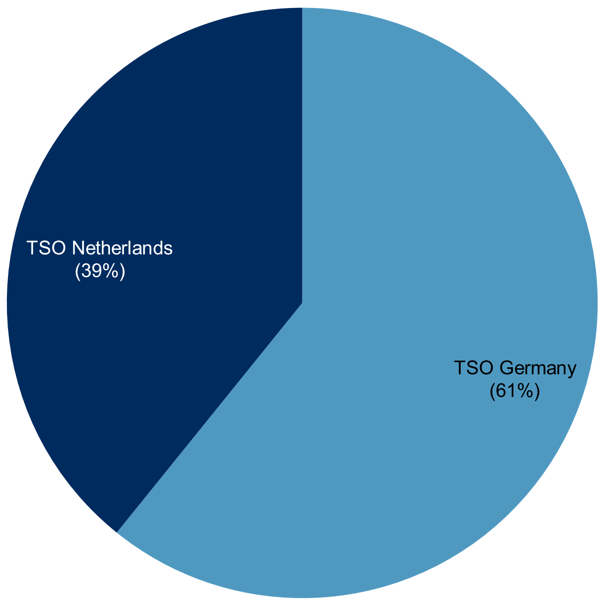
**FY2021 Revenue Split : €5.5 Billion**




Note: Based on IFRS figures. Source: S&P Global Ratings.

**Chart 3**

**Tennet FY2021 Investment Split (€3.7 Billion)**




Source: S&P Global Ratings.



## Peer Comparison

**Table 1**

**TenneT Holding B.V.--Peer Comparison**

**Industry sector: Electric**

| | TenneT Holding B.V. | Terna SpA | Eurogrid GmbH | RTE Reseau de Transport d Electricite |
|---|---|---|---|---|
| Ratings as of July 4, 2022 | A-/Stable/A-2 | BBB+/Positive/A-2 | BBB+/Stable/-- | A/Stable/A-1 |
| | --Fiscal year ended Dec. 31, 2021-- | | | |
| (Mil. €) | | | | |
| Revenue | 5,503.0 | 2,600.6 | 1,665.0 | 5,254.0 |
| EBITDA | 896.0 | 1,851.6 | 491.4 | 2,091.8 |
| Funds from operations (FFO) | 447.5 | 1,338.5 | 397.9 | 1,621.8 |
| Interest expense | 209.5 | 102.9 | 56.6 | 195.2 |
| Cash interest paid | 202.5 | 195.2 | 52.2 | 203.5 |
| Cash flow from operations | 5,534.5 | 843.1 | 3,720.6 | 1,761.2 |
| Capital expenditure | 3,711.0 | 1,475.0 | 833.1 | 1,412.9 |

**Table 1**

## TenneT Holding B.V.--Peer Comparison (cont.)

**Industry sector: Electric**

| | TenneT Holding B.V. | Terna SpA | Eurogrid GmbH | RTE Reseau de Transport d Electricite |
|---|---|---|---|---|
| Free operating cash flow (FOCF) | 1,823.5 | (631.9) | 2,887.5 | 348.3 |
| Discretionary cash flow (DCF) | 1,612.0 | (1,188.6) | 2,767.5 | 35.6 |
| Cash and short-term investments | 2.0 | 2,525.3 | 747.2 | 1,304.8 |
| Debt | 16,551.8 | 9,816.6 | 3,245.4 | 14,476.0 |
| Equity | 6,524.5 | 4,713.0 | 1,931.7 | 5,850.2 |
| **Adjusted ratios** | | | | |
| EBITDA margin (%) | 16.3 | 71.2 | 29.5 | 39.8 |
| Return on capital (%) | (1.2) | 8.7 | 4.7 | 5.4 |
| EBITDA interest coverage (x) | 4.3 | 18.0 | 8.7 | 10.7 |
| FFO cash interest coverage (x) | 3.2 | 7.9 | 8.6 | 9.0 |
| Debt/EBITDA (x) | 18.5 | 5.3 | 6.6 | 6.9 |
| FFO/debt (%) | 2.7 | 13.6 | 12.3 | 11.2 |
| Cash flow from operations/debt (%) | 33.4 | 8.6 | 114.6 | 12.2 |
| FOCF/debt (%) | 11.0 | (6.4) | 89.0 | 2.4 |
| DCF/debt (%) | 9.7 | (12.1) | 85.3 | 0.2 |

We compare TenneT with other TSOs in Europe. Unlike most of its peers, TenneT operates in two countries, Germany and the Netherlands, which brings some diversification to regulatory reset risk, but also leads to some additional complexity. The key difference between TenneT and most of its European peers is TenneT's large capex program, which results in highly negative free operating cash flow (FOCF) to debt and discretionary cash-flow-to-debt ratios. Consequently, we view TenneT's financial risk profile as weaker.

Nevertheless, TenneT benefits from a few strengths that its European TSO peers do not share, in particular a lower dividend payout (35%) and ongoing support from its related government. For example, in the current rating horizon TenneT would receive an equity contribution of €4.25 billion as declared by the Dutch state in September 2021.

We compare TenneT with its French peer, RTE Reseau de Transport d Electricite. Similar to TenneT, RTE's strengths include a strategic monopoly position as the only electricity TSO in France (which we view as a low-risk country), the size of its network, and its almost exclusive focus on regulated transmission activities. RTE's operation, solely in France, results in some limited diversification to regulatory reset risk, unlike peers that operate in two countries such as TenneT. Similar to TenneT, RTE has a strong regulatory advantage.

Eurogrid GmbH, similar to TenneT, is one of the 4 TSOs in Germany and shares strong regulatory advantage. However, in terms of size of the network and revenues Eurogrid is smaller than TenneT.

We also compare TenneT to Italian electricity TSO Terna SpA with strong regulatory advantage. Terna has a similar business mix like TenneT, with 5% coming from unregulated activities. That said, Terna has higher country risk than

TenneT.

## Business Risk: Excellent

***TenneT's position as the Netherlands' only electricity TSO and Germany's largest electricity TSO supports its business risk profile.*** The company generates the bulk of its revenue under the German and Dutch regulatory regimes (above 95% of EBITDA), which we view as supportive. TenneT is exposed to higher execution risks than other TSOs due to its very large capex plan, especially in Germany, where the rapid growth of renewable energy necessitates significant investments in the onshore and offshore grids, creating a range of new challenges and risks. Over the next 10 years, we estimate TenneT will invest about €60 billion in onshore and offshore grid infrastructure in both countries. These risks are partly offset by TenneT's good operating performance and track record so far. Further, most of the German investments are deemed necessary for the energy transition, grid stability, and the international integration of the German network. Gas and electricity TSOs can fully recover growth and extraordinary expenditure from such investments on a pass-through basis ("cost plus").

***Regulatory frameworks in the Netherlands and Germany provide TSOs with a strong regulatory advantage.*** TenneT benefits from the German and Dutch regulators' solid track record of stability, and five-year regulatory periods with well-defined and transparent conditions. The regulatory frameworks provide virtually full coverage of costs (operating expenditure and capex) and protection against inflation, volume risk, and commodity risk. The stability and transparency of the framework allow for predictable and well-defined cash flows over a regulatory period.

In Germany, the current five-year regulatory period will end in 2023. BNetzA has already published the pre-tax ROE for the new regulatory period, which will start in 2024. The new regime will reduce remuneration for assets built before 2006 by about 160 bps, from the previous level of 5.12%, and by about 180 bps for new assets, from 6.91%. We note that the cost recovery in Germany takes longer compared with other European regulatory frameworks that we assess as strong.

In the Netherlands, the current five-year regulatory period runs until 2026. Despite the significant reduction in the pre-tax WACC, which fell to below 2.5% for both new and old assets, compared with 3.0% at the end of the previous regulatory period, we do not expect TenneT's operating performance to dip. This is because efficiency rates will likely remain well above 80% at the end of the regulatory period (for which TenneT has appealed the regulatory proposal). The company will also benefit from increases in the risk free rate due to the ex-post settlement of that rate.

## Financial Risk: Aggressive

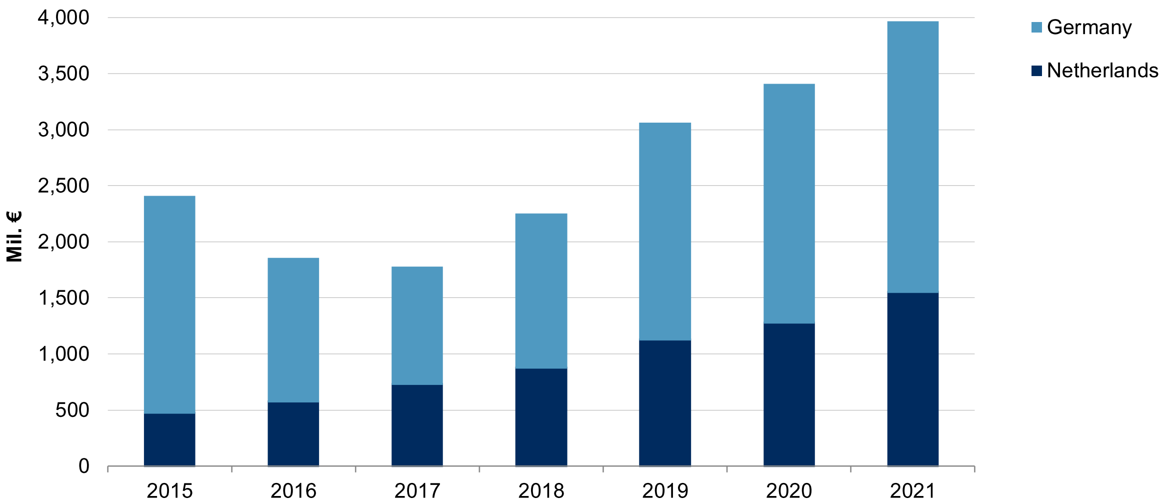
***TenneT's financial risk profile is supported by relatively predictable regulated cash flows. However, substantial investments result in high debt, which we expect will increase over the next 10 years.*** TenneT has embarked on an extensive capex plan to cope with energy transition dynamics in Germany and the Netherlands. This will enable the company to expand faster than its peers, thereby growing its RAB and regulated earnings. However, we anticipate that it will result in negative FOCF in each year of our forecast, and thus an increase in financing needs.

Although the capex will cause a gradual deterioration in credit metrics, we believe they will remain consistent with the current rating.

In particular, TenneT will invest more than €14.5 billion over 2022-2024. This translates into annual capex of more than €5.0 billion, up from about €3.7 billion in 2021. Negative free cash flow after capex and dividends will be close to €3.0 billion per year over 2022-2024, while adjusted debt will likely increase to about €25 billion by the end of 2024, from about €16.5 billion in 2021.

**Chart 4**

**TenneT Capex Historical Evolution**




Capex--Capital expenditure. Source: Annual reports, S&P Global Ratings.



***Some volatility in the cash flow metrics is embedded in the regulatory framework.*** This reflects the delayed recovery of unexpected costs (such as for congestion-management measures) and regulatory account volume effects. That said, we view this as a working capital issue, rather than a credit risk.

***We expect IFRS credit metrics to remain below the rating threshold in 2022, but see a strong rebound in 2023.*** IFRS records revenues for a given year based on tariff charges derived from historical rates. While we expect 2022 adjusted FFO to debt will remain well below the 6% threshold for the current rating based on IFRS numbers, we note from 2023 it should materially improve because:

- TenneT will start to recover the extra costs incurred in the Netherlands, and the higher costs in Germany two years after the current regulatory period ends in 2023;
- The costs incurred in 2022 will be reflected in the tariffs for future periods and thus recovered.

On an IFRS basis, this should result in a weighted average adjusted FFO to debt of above 6%, which is the threshold for the current rating. Based on regulatory figures, we expect TenneT's adjusted FFO to debt to remain well above the 6% threshold during 2022-2024.

***We expect TenneT's credit metrics (based on regulatory accounts) to weaken in the coming years.*** Regulatory accounting considers revenues and charges approved by the regulator. Specifically, we expect adjusted FFO to debt (based on regulatory accounting) to decline in the coming two years to below 8% in 2024, and debt to increase by more than €1.5 billion a year, on average.

The forecast decline is mainly due to the continuing expansion of the investment program as per the German and Dutch Network Development Plan (NDP), combined with lower regulatory remuneration in the Netherlands. Please note forecast are based on regulatory accounting standards and the actuals are based on IFRS accounting standards.

## Financial summary

**Table 2**

| TenneT Holding B.V.--Financial Summary | | | | | |
|---|---|---|---|---|---|
| **Industry sector: Electric** | | | | | |
| | **--Fiscal year ended Dec. 31--** | | | | |
| | **2021** | **2020** | **2019** | **2018** | **2017** |
| **(Mil. €)** | | | | | |
| Revenue | 5,503.0 | 5,025.0 | 4,422.0 | 4,269.0 | 3,976.0 |
| EBITDA | 896.0 | 2,400.0 | 2,059.0 | 1,697.0 | 1,579.5 |
| Funds from operations (FFO) | 447.5 | 1,789.5 | 1,675.5 | 1,246.3 | 1,209.8 |
| Interest expense | 209.5 | 219.5 | 225.0 | 216.7 | 206.2 |
| Cash interest paid | 202.5 | 208.5 | 183.5 | 211.7 | 188.7 |
| Cash flow from operations | 5,534.5 | (304.5) | 1,145.5 | 1,315.3 | 1,464.8 |
| Capital expenditure | 3,711.0 | 3,413.0 | 2,720.0 | 2,316.0 | 1,754.0 |
| Free operating cash flow (FOCF) | 1,823.5 | (3,717.5) | (1,574.5) | (1,000.7) | (289.2) |
| Discretionary cash flow (DCF) | 1,612.0 | (3,949.0) | (1,819.0) | (1,313.7) | (1,158.7) |
| Cash and short-term investments | 2.0 | 477.0 | 202.0 | 8.0 | 55.0 |
| Gross available cash | 2.0 | 477.0 | 202.0 | 8.0 | 55.0 |
| Debt | 16,551.8 | 13,264.0 | 11,601.3 | 10,250.8 | 9,021.7 |
| Equity | 6,524.5 | 7,055.5 | 5,980.0 | 5,310.0 | 5,068.0 |
| **Adjusted ratios** | | | | | |
| EBITDA margin (%) | 16.3 | 47.8 | 46.6 | 39.8 | 39.7 |
| Return on capital (%) | (1.2) | 7.2 | 6.6 | 6.2 | 6.9 |
| EBITDA interest coverage (x) | 4.3 | 10.9 | 9.2 | 7.8 | 7.7 |
| FFO cash interest coverage (x) | 3.2 | 9.6 | 10.1 | 6.9 | 7.4 |
| Debt/EBITDA (x) | 18.5 | 5.5 | 5.6 | 6.0 | 5.7 |
| FFO/debt (%) | 2.7 | 13.5 | 14.4 | 12.2 | 13.4 |
| Cash flow from operations/debt (%) | 33.4 | (2.3) | 9.9 | 12.8 | 16.2 |
| FOCF/debt (%) | 11.0 | (28.0) | (13.6) | (9.8) | (3.2) |
| DCF/debt (%) | 9.7 | (29.8) | (15.7) | (12.8) | (12.8) |

## Reconciliation

**Table 3**

**TenneT Holding B.V.--Reconciliation Of Reported Amounts With S&P Global Ratings' Adjusted Amounts (Mil. €)**

| | --Fiscal year ended Dec. 31, 2021-- | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **TenneT Holding B.V. reported amounts** | | | | | | | | | | |
| | **Debt** | **Shareholders' equity** | **Revenue** | **EBITDA** | **Operating income** | **Interest expense** | **S&P Global Ratings' adjusted EBITDA** | **Cash flow from operations** | **Dividends** | **Capital expenditure** |
| Reported | 13,769.0 | 6,969.0 | 5,524.0 | 890.0 | (275.0) | 164.0 | 896.0 | 4,875.0 | 240.0 | 2,852.0 |
| **S&P Global Ratings' adjustments** | | | | | | | | | | |
| Cash taxes paid | -- | -- | -- | -- | -- | -- | (246.0) | -- | -- | -- |
| Cash interest paid | -- | -- | -- | -- | -- | -- | (174.0) | -- | -- | -- |
| Reported lease liabilities | 404.0 | -- | -- | -- | -- | -- | -- | -- | -- | -- |
| Debt-like hybrids | 20.0 | (20.0) | -- | -- | -- | -- | -- | -- | -- | -- |
| Intermediate hybrids reported as equity | 1,062.5 | (1,062.5) | -- | -- | -- | 28.5 | (28.5) | (28.5) | (28.5) | -- |
| Postretirement benefit obligations/deferred compensation | 264.8 | -- | -- | -- | -- | 3.0 | -- | -- | -- | -- |
| Accessible cash and liquid investments | (2.0) | -- | -- | -- | -- | -- | -- | -- | -- | -- |
| Capitalized interest | -- | -- | -- | -- | -- | 13.0 | -- | -- | -- | -- |
| Dividends received from equity investments | -- | -- | -- | 85.0 | -- | -- | -- | -- | -- | -- |
| Asset-retirement obligations | 1,033.5 | -- | -- | -- | -- | 1.0 | -- | -- | -- | -- |
| Income (expense) of unconsolidated companies | -- | -- | -- | (62.0) | -- | -- | -- | -- | -- | -- |
| Nonoperating income (expense) | -- | -- | -- | -- | 2.0 | -- | -- | -- | -- | -- |
| Reclassification of interest and dividend cash flows | -- | -- | -- | -- | -- | -- | -- | (171.0) | -- | -- |
| Noncontrolling interest/minority interest | -- | 638.0 | -- | -- | -- | -- | -- | -- | -- | -- |
| Revenue: Other | -- | -- | (21.0) | (21.0) | (21.0) | -- | -- | -- | -- | -- |
| EBITDA: Other | -- | -- | -- | 4.0 | 4.0 | -- | -- | -- | -- | -- |
| Depreciation and amortization: Other | -- | -- | -- | -- | 21.0 | -- | -- | -- | -- | -- |
| Operating cash flow: Other | -- | -- | -- | -- | -- | -- | -- | 859.0 | -- | -- |
| Capital expenditure: Other | -- | -- | -- | -- | -- | -- | -- | -- | -- | 859.0 |
| Total adjustments | 2,782.8 | (444.5) | (21.0) | 6.0 | 6.0 | 45.5 | (448.5) | 659.5 | (28.5) | 859.0 |

**Table 3**

**TenneT Holding B.V.--Reconciliation Of Reported Amounts With S&P Global Ratings' Adjusted Amounts (Mil. €) (cont.)**

**S&P Global Ratings' adjusted amounts**

| | Debt | Equity | Revenue | EBITDA | EBIT | Interest expense | Funds from operations | Cash flow from operations | Dividends paid | Capital expenditure |
|---|---|---|---|---|---|---|---|---|---|---|
| Adjusted | 16,551.8 | 6,524.5 | 5,503.0 | 896.0 | (269.0) | 209.5 | 447.5 | 5,534.5 | 211.5 | 3,711.0 |

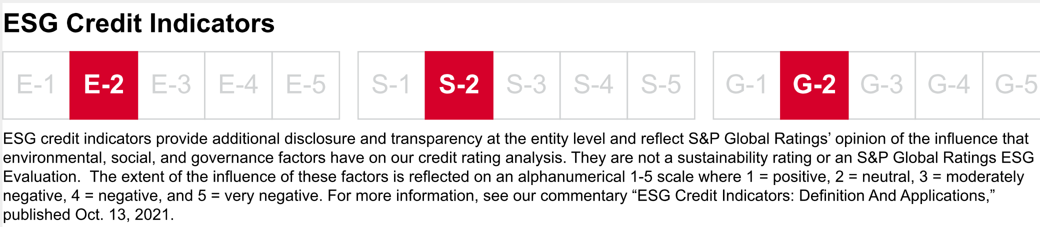
## Liquidity: Adequate

The short-term rating on TenneT is A-2. We consider the company's liquidity to be adequate for the next 12 months. As of June 30, 2022, we expect sources of liquidity to exceed uses by more than 1.2x over this period.

We understand that there are no restrictive covenants in the documentation for the group's debt.

| Principal liquidity sources | Principal liquidity uses |
|---|---|
| • Unrestricted cash of about €398 million as of June 30, 2022;<br>• Available undrawn committed bank facilities of €4.6 billion with maturity beyond 12 months, with notably a €3.3 billion syndicated loan with maturity in November 2026;<br>• Cash FFO of about €1.8 billion in the 12 months ending June 30, 2023; and<br>• Working capital inflow of about €350 million in the period. | • €560 million in debt maturing over the 12 months ending June 30, 2023;<br>• Capex of about €4.5 billion in the period; and<br>• Dividend payments based on a 35% payout ratio of more than €200 million. |

**Environmental, Social, And Governance**




ESG factors have an overall neutral influence on our credit rating analysis of TenneT. To support the European energy transition, TenneT is accelerating its regulated capex plan to connect offshore and onshore renewable generation capacities to the high and extra-high voltage grid, and to enforce the backbone and extend long-distance transport capabilities domestically and across balancing zones. The company is also providing security of supply while operating highly critical infrastructure and seeking to balance network expansion needs against affordability implications for customers. Governance is also an overall neutral consideration. TenneT's regulated asset base is part of two countries' critical infrastructure, reinforcing the need for strong governance. Management decisions are under increased regulatory and political scrutiny, which could create tensions for TenneT to satisfy both Dutch and German requirements. However, we consider interests between TenneT's regulatory stakeholders aligned and view its governance as supportive.

## Issue Ratings - Subordination Risk Analysis

### Capital structure

TenneT is the biggest corporate issuer of green senior unsecured debt in the Netherlands , with about €13.0 billion outstanding as of Dec. 31, 2021. In 2021, TenneT successfully issued two green bonds, €1.8 billion in May 2021 and €1.0 billion in November 2021.

TenneT is using hybrid capital to support its large investment program in Germany. We consider the rated €2.1 billion outstanding hybrids to have intermediate equity content.

### Analytical conclusions

TenneT's debt structure is within our guidelines for aligning the rating on senior unsecured debt with the 'A-' issuer credit rating. This is because all outstanding debt is at the parent company level and there is no secured debt.

We arrive at our 'BB+' issue rating on the hybrid instruments by notching down from our 'bbb' SACP on TenneT. The two-notch difference stems from deducting:

- One notch for subordination because our long-term issuer credit rating and SACP are investment grade (higher than 'BB+')
- An additional notch for payment flexibility, to reflect that the deferral of interest is optional.

## Ratings Score Snapshot

### Issuer Credit Rating

A-/Stable/A-2

**Business risk: Excellent**

- **Country risk:** Very low
- **Industry risk:** Very low
- **Competitive position:** Strong

**Financial risk: Aggressive**

- **Cash flow/leverage:** Aggressive

**Anchor: bbb**

**Modifiers**

- **Diversification/portfolio effect:** Neutral (no impact)
- **Capital structure:** Neutral (no impact)
- **Financial policy:** Neutral (no impact)
- **Liquidity:** Adequate (no impact)
- **Management and governance:** Fair (no impact)
- **Comparable rating analysis:** Neutral (no impact)

**Stand-alone credit profile : bbb**

- **Related government rating:** AAA
- **Likelihood of government support:** Moderately high (+2 notches from SACP)

## Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013

- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010

## Related Research

- The Dash For Gas Fuels Risks For European Utilities, Slows Energy Transition; June 29, 2022
- German And Dutch Power TSO TenneT 'A-' Rating Affirmed On Expectation That Ratio Dip Is Temporary; Outlook Stable; April 27, 2022

**Business And Financial Risk Matrix**

| | Financial Risk Profile | | | | | |
|---|---|---|---|---|---|---|
| **Business Risk Profile** | Minimal | Modest | Intermediate | Significant | **Aggressive** | Highly leveraged |
| **Excellent** | aaa/aa+ | aa | a+/a | a- | **bbb** | bbb-/bb+ |
| Strong | aa/aa- | a+/a | a-/bbb+ | bbb | bb+ | bb |
| Satisfactory | a/a- | bbb+ | bbb/bbb- | bbb-/bb+ | bb | b+ |
| Fair | bbb/bbb- | bbb- | bb+ | bb | bb- | b |
| Weak | bb+ | bb+ | bb | bb- | b+ | b/b- |
| Vulnerable | bb- | bb- | bb-/b+ | b+ | b | b- |

| Ratings Detail (As Of July 21, 2022)* | |
|---|---|
| **TenneT Holding B.V.** | |
| Issuer Credit Rating | A-/Stable/A-2 |
| Commercial Paper | |
| *Local Currency* | A-2 |
| Junior Subordinated | BB+ |
| Senior Unsecured | A- |
| Short-Term Debt | A-2 |
| **Issuer Credit Ratings History** | |
| 15-Apr-2010 | A-/Stable/A-2 |
| 21-Jan-2010 | A-/Watch Neg/A-2 |

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.