

Rating object

Eurogrid GmbH
Long-term Local Currency Senior Unsecured Issues of Eurogrid GmbH

Rating incl. outlook / watch

A / negative
A / negative

The present update 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
Eurogrid GmbH	11.03.2022	14.03.2022	Until withdrawal of the rating
Long-term Local Currency Senior Unsecured Issues of Eurogrid GmbH	11.03.2022	14.03.2022	Until withdrawal of the rating

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

Rating summary:

Creditreform Rating (CRA) has confirmed the public unsolicited corporate issuer rating of Eurogrid GmbH – hereinafter referred to as the Company or Eurogrid - at **A**. The outlook has been changed to **negative**. The unsolicited corporate issue rating of long-term local currency senior unsecured notes issued by Eurogrid GmbH were also confirmed at **A**, whereas the outlook has also been changed to **negative**. For more information about our rating assessment of Eurogrid, especially with regard to its earlier development, structural, business and financial risks, we refer to our full rating report from 02.07.2021 which can be found on our website under published ratings.

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

The Company operates via 50Hertz Transmission GmbH (50Hertz) 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, margins and 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.

Liquidity risks are elevated, in particular with regard to 50Hertz' EEG-account, which is responsible for the pre-financing of the market premium and potential gap between selling and feed-in tariffs. The potential discrepancies between the pre-financing obligation and the surcharge could lead to significant liquidity shortages as was seen during the business year 2020. In 2021, Eurogrid benefited from federal compensation to cover the cash deficit build up in 2020. Moreover, the strong increase in energy prices during the second half of 2021 led to higher cash-in for EEG-account.

The one-year outlook is **negative**. The appraisal is based on the current business environment of 50Hertz and incorporates the increase in investments in our outlook. We assume that the stability and support offered by the regulatory framework required for the financing of these investments will remain. However, the Company plans to finance these investments over the coming years with 60% external financing, therefore we expect a deterioration in the financial key figures. The adaptation of the business to the growth and modernization of the asset base has led to an increase in operating costs, which in our view will lead to a deterioration of its financials if these effects are not compensated by an increase in grid revenues.

The controlling shareholder of the Group is Elia Group S.A. (**A / negative**, CRA 11.03.2022), based in Belgium, with 80% of the Group's share capital. As Elia Group S.A. has a large influence on the Group's financial and strategic alignment of the Company, the rating of Eurogrid GmbH is constrained by the rating of Elia Group S.A. The remaining 20% is indirectly owned by the German government via the KfW, which has a slightly positive influence on the corporate rating.

In 2021, the net volume drawn off from the 50Hertz grid increased by 4.4% to 48.2 TWh. The peak load was 8.6 GW (2020: 8.7 GW). 50Hertz Transmission's total revenue and other income increased compared to 2020 by 18.0% to EUR 1,716.9 million, mainly driven by a positive development in revenues from incentive regulation and energy revenues, as well as by the positive effect from settlement mechanism. The revenues from incentive regulation consist of grid tariffs before the settlement mechanism, while energy revenues are revenues from system operation including redispatching services. The settlement mechanism is used to neutralize the differences between cost allowances in tariffs and actual costs incurred in current and previous years.

EBITDA decreased to EUR 534.0 million (-7.7%). The positive effect from the growing asset base with increased investment remuneration was outweighed by business expansion, which led to increase in operating expenses. Onshore maintenance costs increased, driven by a peak in the maintenance cycle. Moreover, reinforcement of the grid led to higher losses from the sale and disposal of old onshore assets which were decommissioned. The increasing complexity of system operations and the digitalization of the business have led to an increase in personnel and IT costs. The ending of lockdown measures in 2021 caused an increase in operational expenses for areas such as consulting, external services and travelling. As a result of these effects, EBIT decreased by 19.8% to EUR 272.9 million. Net profit declined by 14.1% to EUR 165.4 million, positively influenced by the higher financial results, driven in particular by more favorable conditions, and lower taxes.

Total assets rose by EUR 2,912.9 million to EUR 9,941.3 million, mainly due to a favorable development of the EEG business and further progress on the investment program. 50Hertz invested EUR 850.9 million in 2021, up 18.9% compared to the previous year (EUR 715.9 million). As a result, the Regulatory Asset Base (RAB) increased to EUR 6.2 billion, a growth of 8.8%. Free cash flow totaled EUR 2,889.4 million and was significantly affected by the high cash inflow for the EEG account (EUR 2,918.9 million). In 2021, 50Hertz received three federal payments (EUR 2,160.0 million) to cover the cash deficit build-up in 2020 and paid back the revolving credit facilities (EUR 700 million) contracted at the end of last year to cover this EEG deficit. In addition, the strong increase in energy prices during the second half of 2021 led to higher cash-in than expected for EEG-account.

The investment program was primarily financed from the operating cash flow, but also a EUR 500 million senior bond with a 12-year tenor and a fixed interest rate of 0.741% was issued in April 2021. Taking into account the EEG position, the net financial debt dropped by EUR 2,741.7 million to EUR 1,014.9 million. The Net financial debt excluding EEG-position however increased by EUR 628.1 million to EUR 3,124.8 million. The EEG surplus as of December 2021 amounted to EUR 2,110.0 million (2020: EUR 808.9 deficit).

The total equity increased by EUR 297.3 million to EUR 1,928.7 million due to the positive annual result and fair value changes in future contracts entered into by 50Hertz in the context of strong energy prices.

Elia continues to expect a return on equity of 8-10% for the German segment for the coming years and investments of roughly EUR 850 million per year. Eurogrid showed an overall positive development in the 2021 financial year; however, the foreseen investments could increase the Company's leverage over the coming years, thus bringing about a deterioration in its credit position. If the increase in revenues as a result of expanding RAB does not outweigh the increasing operating costs, deterioration of the earnings structure could persist, causing additional negative effects on Eurogrid's financials.

Based on the unsolicited corporate issuer rating of Eurogrid GmbH (**A / negative**), Creditreform Rating has conducted unsolicited corporate issue ratings of notes (ISIN) issued by Eurogrid GmbH. The rating objects in question are exclusively the long-term senior unsecured issues denominated in euro which have been issued by Eurogrid GmbH and which are included in the list of ECB-eligible marketable assets. The ECB list of eligible marketable assets can be found on the ECB's website. We have provided the debt securities issued by Eurogrid GmbH with a rating of **A** with **negative** outlook.

Primary key rating drivers:

- + Overall proven stable development as a result of the stable regulatory framework and recovery from the implications of the COVID-19 pandemic
- + Increase in RAB according to the adopted investment plan
- + Proven access to financial markets and secured funds for investments against the backdrop of bond issue in April 2021
- + Positive effects from compensation payments related to the EEG-mechanism

- Increase in net financial debt excluding EEG.effects
- Increase in operating costs following the structural adaption and digitalization of the business and deterioration of profitability figures
- Further adjustments in the investment plan with increased capex for the period 2022 – 2026
- Expected deterioration of key financials in the course of ambitious investment plan and the need of increase in debt to finance it combined with pressure on the operating costs following the growth and modernization of assets

ESG-criteria:

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

Based on the sustainability report of Elia Group S.A. and the other documents available to us, we currently assess the risks from ESG factors in relation to the rating object as low. In October 2021 Elia received an ESG risk rating of 9.9 and was assessed by Sustainalytics to have negligible risk of experiencing material financial impacts from ESG factors. Eurogrid GmbH issued in April 2021 a green bond.

We believe that Eurogrid as a Transmission System Operator plays an important role in the decarbonization of the energy market by integrating an increasing amount of renewables into their systems. 50Hertz Transmission assigned a strategic priority to the decarbonization of society. Compared to its peers, we consider the Company's environmental, social and governmental aspects as average.

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 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 for 50Hertz Transmission GmbH along with the increase in operating costs following the adaption of business to growth and modernization of its assets. We expect the Group's financial profile to deteriorate in the medium term, as it will need additional external financing in connection with the implementation of its investment plan. The Rating is currently constrained by the unsolicited corporate rating of Elia Group NV/SA (A / negative, CRA 11.03.2022), 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 corporate issuer rating of A-. The rating could be downgraded if the Company's leverage increases more than expected, or if the deterioration of its earnings structure persists, which could lead to a deterioration in the financial key ratios relevant to the rating. Another significant upward adjustment in the investment plan could also have a detrimental effect on the Company's rating. Revenues could also be negatively affected by the implications of a threatening energy crisis in Europe, and an overall decrease in power generation and transportation against the backdrop of the war in Ukraine and the resulting sanctions against Russia.

Analysts / Person approving (PAC):

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Initial rating:

Rating object	Event	Rating created	Publication date	Monitoring until	Result
Eurogrid GmbH	Initialrating	02.07.2021	www.creditreform-rating.de	10.03.2022	A / stable
LT LC Senior Unsecured Issues issued by Eurogrid GmbH	Initialrating	02.07.2021	www.creditreform-rating.de	10.03.2022	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	2.3	29.05.2019
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.

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.

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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