

> Return address POSTBUS 20201 2500 EE 'S-GRAVENHAGE

Speaker of the House of Representatives of the States-General
P.O. Box 20018
2500 EA THE HAGUE

Department of State-owned Enterprises

Korte Voorhout 7
2511 CW 'S-GRAVENHAGE
POSTBUS 20201
2500 EE 'S-GRAVENHAGE
www.rijksoverheid.nl/fin

Our reference
2025-0000087994

Your letter (reference)

Attachments

1. Verification framework institution guarantee TenneT Netherlands
2. Policy choices explained TenneT Germany

Date 17 april 2025
Subject Structural solutions for TenneT Netherlands and TenneT Germany

Dear Chairman,

TenneT is the national high-voltage grid operator and operator of the offshore grid in the Netherlands. In addition, TenneT operates the high-voltage grid in part of Germany, both on land as well as offshore. Due to the energy transition, TenneT's investment agenda has grown significantly in recent years. Partly due to this reason, TenneT has a large financing need for both its Dutch and German operations.

In this letter, we will first discuss the structural solution for the financing of TenneT Netherlands (chapter 1). In September 2024, we informed you that the government intends to continue taking care of the financing of TenneT Netherlands.¹ Subsequently, the Interdepartmental Policy Review on Financing Electricity Infrastructure (hereafter: the IBO)² examined whether there are other ways to finance grid operators besides capital contributions. With this letter, we inform you that the Spring Budget 2025 includes an institutional guarantee (hereafter: guarantee) for TenneT Netherlands. With this, after parliamentary approval of the first supplementary budget 2025 of Finance, TenneT Netherlands' financing needs can be met in a structural manner.

The minister of Finance then sets out the structural solution for financing TenneT Germany (chapter 2). In December 2024, you were informed that the participation of private investors is still the preferred option for such solution.³ Two options are currently being prepared: a private issue of shares (hereafter: private issue) and an IPO. The next step in this preparation is to explore market interest in both options. With this letter, I inform you that the Spring Budget 2025 includes a reservation of €7.3 billion as a *last resort* measure to meet TenneT Germany's equity need. This reservation will only be used in the unlikely event that the participation of private investors is not sufficient to meet the entire equity need or the debt restructuring is not successful.

The finance minister explains the debt restructuring (chapter 3). In working out the structural solutions for TenneT Netherlands and TenneT Germany, TenneT's

¹ Parliamentary Papers II 2024-2025, 28 165 no 429.

² Parliamentary Papers II 2024-2025, 29 023 no 553.

³ Parliamentary Papers II 2024-2025, 28 165 no 443.

financing structure will change. Existing bondholders will be solicited to agree to move debt to TenneT Netherlands in exchange for a one-time fee.

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Finally, we inform you about the impact of the envisaged structural solutions for TenneT Netherlands and TenneT Germany on the temporary financing, the loan facility, that the state has provided to TenneT (chapter 4).

Due to the business confidentiality of the information and to protect the economic and financial interests of the state, some of the information will be shared with you confidentially by the finance minister. The underlying decision memoranda and research report are also available for confidential inspection in your chamber.

1. TenneT Netherlands

1.1 Size and grip on investment agenda

TenneT Netherlands expects to have to invest around €90 billion in the Dutch onshore and offshore electricity grid over the next 10 years, according to its most recent investment projections. This is part of the total investment task of the Dutch grid operators of an estimated € 195 billion until 2040. The IBO reviewed this investment task. You will soon receive the government's response to this IBO and the measures the government intends to implement. In addition to the government response, we identified two points of attention for the state in its role as shareholder of TenneT Netherlands:

- *Timely insight into the investment agenda.* Prior to the adoption of the legally required national investment plan, the shareholder wishes to discuss the cost calculations of these plans with TenneT Netherlands. The cost calculation must include the costs and the expected impact of these investments on financing and equity need. Through these calculations the shareholder wishes to gain timely insight into the cost impact of the investment agenda. This is in addition to the investment forecast as described in the IBO.
- *Monitoring implementation of measures.* TenneT Netherlands is implementing (operational) measures to control the investment agenda. The progress of the implementation and the results of the measures are monitored via KPIs in quarterly meetings.

1.2 Financing need

TenneT Netherlands' financing needs were previously provided, through TenneT Holding, with a combination of equity and loan capital (i.e. debt). Due to the large investment agenda, the financing need is rising significantly. A *credit rating* is required to raise debt at acceptable conditions. With a credit rating, credit rating agencies give their opinion on the creditworthiness of a company. TenneT Holding currently has an A- rating with credit rating agency Standard & Poor's (S&P) in accordance with the state-owned enterprise policy.⁴ If TenneT Netherlands finances its future funding needs with debt alone, net debt (key financial ratio that credit rating agencies look at) increases to the point where it comes under pressure. As a result, the credit rating may be downgraded. Therefore, in order to maintain an adequate rating, TenneT Netherlands cannot be funded with debt alone in this financial model, but should also be funded with equity (hereafter, the equity need). Capital contributions to TenneT Netherlands are in principle EMU-balance relevant. Because of the high financing and equity need, the

⁴ In addition, TenneT has a similar rating (A3) with credit rating agency Moody's.

aforementioned IBO examined whether the current method of financing is still the most efficient.

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The IBO examined two alternative options for financing TenneT Netherlands:

- The issuance of a guarantee resulting in the debt issued by TenneT Netherlands receiving an *AAA rating* (the same credit rating as the Dutch State). This allows TenneT Netherlands to raise more and cheaper debt in the capital market; and
- To lend (in full) through the state which eliminates the need for a credit rating.

Attachment 1⁵ provides an overview of the two options and a comparison with the capital contribution option.

1.3 Structural solution

Under both alternative financing options, TenneT Netherlands in principle no longer needs additional equity and thus no EMU-balance relevant capital contributions. In addition, both options provide a substantial financing advantage. This can amount to several hundred million euros per year. This advantage benefits the Dutch State, as TenneT Netherlands will pay a guarantee fee. These proceeds are EMU-balance relevant, but not relevant for the expenditure framework and as a result directly reduce EMU-debt.

The guarantee has the following advantages over loans:

- It has no negative impact on EMU debt
- It is in line with the state-owned enterprise policy and the independent position of TenneT Netherlands is maintained;
- Possibly some degree of bond market discipline will be retained.

The guarantee also has some drawbacks compared to loans:

- It is harder to reverse;
- There is a lesser signaling effect concerning TenneT Netherlands' costs towards the parliament because there is no need for budgetary adjustment. This is partly mitigated by the design of the guarantee, as the guarantee cap is reassessed annually and has to be approved by parliament.

After weighing both alternatives and set against the option of depositing capital, we opted for a guarantee. The guarantee is detailed in the Assessment Framework in Attachment 1.

⁵ Attachment not available in English.

1.4 Continued

The intention to provide a guarantee was included in the Spring Budget 2025 and is submitted to the parliament as part of the first supplementary budget of Finance. When the new guarantee comes into force, the debt ceiling will be €52 billion. The debt ceiling concerns the amount of current debt plus the debt required for all legally required investments of TenneT Netherlands. In addition, there is some leeway included in the guarantee so that TenneT Netherlands can meet obligations from the Wind at Sea development framework expected in May 2025. This specifically concerns the Doordewind II wind farm. Each year, the debt ceiling will be recalibrated so that the total ceiling again covers the existing debt and the required financing of all statutory investments. The recalibrated debt ceiling will be presented to you in the Spring Budget. This will create an additional way of monitoring TenneT Netherlands' investment agenda.

2. Structural solution TenneT Germany

2.1 Size and grip on investment agenda

TenneT Germany expects to invest around €110 billion in Germany's onshore and offshore electricity grid over the next 10 years. TenneT Germany will recoup these investments through German grid tariffs. The German investment agenda has its basis in the German investment plan (*Netzentwicklungsplan*, hereinafter NEP). The NEP is drawn up every two years by TenneT Germany together with other German grid operators. The NEP is reviewed by the German Ministry of Economic Affairs and Climate Change and the German regulator. The NEP is then adopted by the German parliament and its implementation is legally binding. With each new NEP, new projects can be added to TenneT Germany's investment agenda.

Over the past period, we have examined how the shareholder can better and earlier gain insight into the expected investment task of TenneT Germany. It was also examined what opportunities TenneT Germany, TenneT Holding and I, the Minister of Finance, as indirect shareholder, have with regards to addressing the investment task. At the state's request, TenneT Germany subsequently formulated an action plan. The action plan consists of two parts⁶:

- *Timely understanding of the investment agenda.* Prior to the adoption of the NEP, investments and a cost estimate of these investments will be discussed with the shareholder at various times.
- *Measures to lower the investment agenda.* The action plan includes measures that could potentially lower TenneT Germany's investment agenda. In the short- and medium term, TenneT Germany has limited scope for this due to legal obligations. Measures may have more impact in the long term (from 2030 onwards). However, the potential impact is limited by the current constraints of German policy and legislation. TenneT Germany is advocating measures with the relevant German authorities and regulator to lower the future investment agenda. As an indirect shareholder, the Dutch State supports TenneT Germany in its advocacy towards the German government. Similar to TenneT Netherlands, TenneT Germany is already independently implementing various measures to control TenneT Germany's investment

⁶ Based on preliminary legal analysis, it is expected that the action plan can be continued in this form in case private investors participate in TenneT Germany as long as TenneT Holding remains majority shareholder of TenneT Germany.

agenda. The progress of implementation and the results of the measures are monitored via KPIs in quarterly meetings.

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2.2 Financing need

TenneT Germany is funded with a combination of equity and debt and needs an investment-worthy *credit rating* to raise sufficient debt on acceptable terms. Whereas state-owned enterprises must in principle comply with the general rule to maintain an *A- rating*, it is justifiable to deviate from this for TenneT Germany. By aiming for a lower credit rating, the equity need can be reduced. The state-owned enterprise policy also offers room to aim for a lower rating (i) if the credit rating is in line with comparable private companies and (ii) as long as this does not endanger the financial health of the company. A minimum rating of BBB will be targeted for TenneT Germany because (i) other German grid operators have a *BBB* or *BBB+* rating and (ii) TenneT's financial advisors and the Dutch State confirm that a *BBB rating* is sufficient to raise the necessary debt from the market.

To determine the credit rating, credit rating agencies look at certain financial ratios. The fact that the Dutch State is a majority shareholder is likely to be viewed positively by credit rating agencies. This allows TenneT Germany to target lower financial ratios, belonging to a *BBB- rating*, and still maintain a *BBB rating*. The implication is that, as long as the lower ratios of a *BBB- rating* are targeted, the Dutch State, through TenneT Holding, must remain majority shareholder of TenneT Germany. Currently, it is also expected that the Dutch State will remain majority shareholder if the equity need (see below) is fully met by private investors. In time, TenneT Germany's financial ratios will rise again, which is expected to remove the above restriction.

Financial policy determines the size of equity need. Moreover, it also has an impact on how attractive investors find it to participate in a company. Investors do not only look at the credit rating, but also consider the underlying financial ratios. When preparing for the private issuance of shares, non-binding offers are requested in the next phase. To maximise the chances of fully meeting the equity need with the participation of private investors, two different financial policy options are thereby explored. These options result in an equity need of ~€7.5 billion⁷ if aiming towards the minimum ratios to maintain a *BBB rating* and ~€12.5 billion if aiming towards wider ratios that might attract other investors and more capital.⁸ In an IPO, it is not possible to test different options. For this reason, the financial ratios that result in an equity need of ~€12.5 billion are used as a basis.

The above amounts already include a number of measures which reduces the equity need. First, TenneT Germany will start paying dividends again when private investors join. TenneT Holding will reinvest this dividend directly in TenneT Germany. In return, TenneT Holding will receive shares with the same economic value.⁹ Secondly, the issuance of hybrid loans is included. These are

⁷ As more debt capital has to be raised under this scenario, TenneT has indicated that it may have to use a loan from the Dutch State for several billions in 2026. Currently, €17.1 billion is reserved for 2026. In addition, an EMU-balance relevant capital injection for TenneT Netherlands may be required in this scenario, to keep TenneT Holding's financial ratios as a whole at the right level. Finally, in this scenario there is no buffer for a rising investment agenda. This will directly lead to additional equity need. These disadvantages should be taken into account when assessing the non-binding bids.

⁸ Equity need is calculated based on the 2024 financial year results.

⁹ The dividend payment (concerns both TenneT Netherlands and TenneT Germany) was set to zero by the Spring Budget 2024.

financial instruments that have characteristics of both equity and debt. As a result, these instruments are partly considered as equity by credit rating agencies and therefore partly do not count towards net debt.

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Additionally, the German state could contribute to the equity need, for instance through participation of the German investment bank, KfW. An investment by the German state would require a political mandate. In Germany, a coalition agreement has recently been published. It is still unclear whether KfW participation can be realised in the short term.

2.3 Structural solution

The government currently still considers a participation of private investors in TenneT Germany to be the best structural solution for Germany's equity need. The likelihood of fully filling the equity need via private investor participation increases if I am willing to support the financial policy required for a *BBB rating*. The probability of a successful debt restructuring also increases if I am willing to meet the equity need myself (see below at 3). I have therefore included a reservation in the Spring Budget 2025 for the maximum amount needed to maintain the *BBB* rating totaling €7.3 billion.¹⁰ Of this amount, €3.0 billion has been included in the Finance Budget for 2025. The remaining €4.3 billion has been placed on the Supplementary Budget (AP). This means that with regard to the AP funds in later years, parliament has budget rights and must agree to transfer these AP funds to the Finance budget.

This reserve should be considered as a *last resort* measure, which will only be used in the unlikely event that the participation of private investors is not sufficient to meet the entire equity need or if the debt restructuring leads to unacceptable costs (see below at 3). Should contributions actually be effectuated, they will yield returns and in time, when there is no longer a equity need, will be recouped through dividends. A capital contribution is not EMU-balance relevant if it can be shown that private parties would participate in a similar way to the government. However, it will count towards the EMU debt¹¹. At subsequent budget junctures, the possibility of releasing (part of) the reservation will be examined.

2.4 Upcoming

This past March, TenneT published an invitation for investors to apply if interested to participate in the private issue. TenneT will further explore interest in the market in May and June. For the private issuance of shares, this means that TenneT will share information with interested parties on a confidential basis. On this basis, investors can submit non-binding offers. These non-binding offers give TenneT more concrete insight into market interest and the two financial policy options. With regards to the IPO, TenneT conducts individual discussions with investors interested in a relatively large stake to gain insight into their interest.

The decision moment between the private issuance and the IPO is scheduled for early July. Based on discussions with investors and the non-binding offers received, I will then assess together with TenneT what is expected to be the best

¹⁰ This reservation is lower than the previously mentioned equity need of €7.5 billion because this reservation does not include the cost of debt restructuring (see chapter 3).

¹¹ Also based on recent discussions with CBS, the current assessment is that capital contributions to TenneT Germany are not relevant for the EMU balance if it is clear that private parties would enter based on the same market conditions. Ultimately, the assessment on EMU balance relevance is up to CBS and Eurostat.

option. In making this decision, I will consider, among other things, the criteria shared with you earlier:

- Potential negative financial and budgetary consequences for the Dutch State should be minimised;
- The contribution to Dutch public interests should be maintained as much as possible;
- The price should be market-based;
- TenneT's governance must remain workable and manageable.

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Around the start of the summer break, I will inform you of my choice, after which TenneT will further implement this choice during the summer break. If the private issuance is chosen, it means that the non-binding offers will be further developed into binding offers by the investors. A transaction will be prepared. If an IPO is chosen and actually implemented, TenneT will announce the intention to float after which the share price and allocation will be determined with the IPO.

3. Debt restructuring

3.1 Background

TenneT has approximately € 16.7 billion in bonds¹² outstanding with third parties in the market. These bonds were issued in tranches between 2010 and 2022 when market interest rates were mainly lower than current and expected future market interest rates. Because TenneT raised bonds during the period when interest rates were low, this bond portfolio has an economic value of approximately €1.8 billion.¹³

Due to the implementation of structural solutions for TenneT Netherlands (the guarantee) and TenneT Germany (the participation of private investors), TenneT's financing structure is changing. Currently, TenneT collects its debt through TenneT Holding and on-lends it to TenneT Netherlands and TenneT Germany. In the future, debt will be raised separately by TenneT Netherlands and TenneT Germany. All existing bondholders will be asked to consent to move the debt to TenneT Netherlands, due to the following reasons:

- Due to the new financing structure, TenneT Holding's *credit rating* will deteriorate. Also, as outlined earlier, TenneT Germany will receive a lower *credit rating* than the current A- rating. As a result, existing bondholders may feel they will be disadvantaged if they are not transferred to TenneT Netherlands. This will affect TenneT's reputation. Because TenneT Netherlands and TenneT Germany have to raise a very large amount of debt in the future, a good reputation is very important.
- By moving the debt completely, no senior debt¹⁴ remains outstanding at the level of TenneT Holding. This creates a clear financing structure towards the future that also provides all the flexibility to provide for the financing of TenneT Germany and TenneT Netherlands.
- By moving the debt, existing bondholders become part of the new financing structure. As a result, any developments surrounding (the equity need of) TenneT Germany will no longer have an impact on the interests of these

¹² TenneT has a total of approximately € 19 billion of senior long-term debt outstanding (excluding loans from the Dutch State). The majority are bonds (€16.7 billion), the remaining €2.2 billion consists of other debt instruments, including loans from the EIB.

¹³ This economic value is determined by looking at what additional costs TenneT would incur if it had to refinance the debt with current market interest rates.

¹⁴ Senior debt means that the debt is not subordinated to other debt.

bondholders and potential discussions about them will be eliminated. The economic value of the bonds can then be fully preserved.

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3.2 Proposal

In order to transfer the debt to TenneT Netherlands, bondholders' approval is required under the bond terms. They are asked to agree to the restructuring based on a proposal consisting of the following two elements:

- *Financial compensation.* It is common practice in the market to offer bondholders financial compensation on the condition that they agree to the restructuring. Therefore, TenneT will make bondholders a financial offer totalling €157 million. TenneT and its financial advisers have determined the amount of this proposal. This proposal has been reviewed by the state and its financial advisor and is imitable.
- *Guarantee.* TenneT's current bonds are rated A-. If these bonds are brought under the guarantee of the Dutch State for TenneT NL, they will have an AAA rating. If all 20 tranches are brought under the guarantee, the value of the bonds increases by ~€ 464 million. This makes it more attractive for bondholders to agree to the transfer proposal. Should parliament not approve this guarantee, if the debt restructuring is successful, the value of the guarantee will still be paid as a cash amount by TenneT to bondholders.

Some bondholders receive interest from TenneT that is higher than current market interest rates. These bonds therefore do not currently represent economic value for TenneT. These bonds will also be moved to TenneT Netherlands, but will not be brought under the guarantee. Based on advice from internal and external legal advisors, it was concluded that providing a guarantee by the state for these bonds would not be allowed under state aid rules. The other bonds can be brought under the guarantee because the guarantee (in combination with the financial compensation) is proportionate to the economic value these bonds represent for TenneT.

If an insufficient number of bondholders agree to the one-off compensation described above and the new financing structure cannot be implemented, TenneT risks that the €1.8 billion in economic value could be (partly) lost. This is unacceptable to TenneT and the Dutch State. Therefore, TenneT will then withdraw the offer and the debt will not be transferred to TenneT Netherlands. To ensure that economic value is not lost, it would then be the state's preference to meet substantially all of TenneT Germany's equity need itself. In that case, I consider it logical to finance the company at the lowest possible financial ratios so that the equity need is as small as possible, resulting in an equity need of ~€7.3 billion¹⁵. As described above, I have therefore reserved this amount in the budget as well.

3.3 Continued

The debt restructuring will start simultaneously with the sending of this letter. I will inform you of the outcome upon completion.

¹⁵ As more debt capital has to be raised under this scenario, TenneT has indicated that it may have to use a loan from the Dutch State for several billions in 2026. Currently, €17.1 billion is reserved for 2026. In addition, a capital injection for TenneT Netherlands may be required in this scenario to keep TenneT Holding's financial ratios as a whole at the right level. Finally, there is no buffer for an increasing investment agenda in this scenario. This will directly lead to additional equity need.

4. Temporary funding and overall budget picture

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Table 1 shows the financing of TenneT included in the national budget if parliament agrees to the measures in the first supplementary budget 2025 of Finance explained in this letter

Table 1 - Overview of financing TenneT

| €bn. | Relevant for | | | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 et seq. | Total |
|---|----------------|--------------------------|-------------|--------|--------|--------|--------|--------|-----------------|--------|
| | EMU balance | Expenditure framework | EMU debt | | | | | | | |
| Temporary funding (existing sequence in the budget) | | | | | | | | | | |
| Loan facility | No | No | Yes | € 13.1 | € 14.2 | € 17.1 | - | - | - | € 44.4 |
| Interest income | Yes | No | Yes | € 0.2 | € 0.6 | € 1.2 | € 1.6 | € 1.6 | € 1.6 | N/A |
| TenneT Netherlands: structural solution (new proposal in the budget) | | | | | | | | | | |
| Guarantee ceiling | No | No | No | - | - | - | - | - | - | € 52 |
| Guarantee fee | Yes | No | Yes | - | € 0.00 | € 0.03 | € 0.08 | € 0.12 | € 0.16 | N/A |
| TenneT Germany: last resort measure (new proposal in the budget) | | | | | | | | | | |
| Capital contribution | No | No | Yes | - | € 3.00 | - | € 2.15 | € 2.15 | - | € 7.3 |

This overview includes all reservations for TenneT. I do not envisage a scenario where all these reservations are required in combination. Some of these are also expected to be released in the (short) term, depending on a potential transaction. This includes the *last resort* measure, which will only be used in the unexpected event that the participation of private investors is not sufficient to meet the entire equity need or if the debt restructuring leads to unacceptable costs. In addition, the overview includes the reservation of the temporary loan facility TenneT Holding has with the state for 2025 and 2026 of €14 billion and €17 billion, respectively. This loan facility serves as a bridging solution until the structural solutions for TenneT Netherlands and TenneT Germany are fully implemented.

For TenneT Netherlands, the structural solution will be fully implemented the moment parliament has approved the guarantee in Finance's first supplementary budget 2025 and TenneT Netherlands can therefore raise debt independently using the guarantee. I will then release the reservation for TenneT Netherlands for 2026 of €6.6 billion at the next budget junctures after implementation, the Draft Finance Budget 2026.

For TenneT Germany, the structural solution will be fully implemented when the transaction is completed. It will then probably also be clear to what extent the reservation for the equity need for TenneT Germany will be required. This is expected to be at the end of this year. I then expect to inform you by Spring Budget 2026 about the release of the remaining loan facility related to TenneT Germany and possible adjustments to the reservation for the equity need for TenneT Germany.

Sincerely,

The Minister of Finance,

The Minister of Climate and Green Growth,

**Department of State-
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E. Heinen

Sophie Hermans