



## TenneT Holding B.V.

*(incorporated with limited liability in The Netherlands with its statutory seat in Arnhem)*

### €1,000,000,000 Fixed-to-Reset Rate NC7.1 Perpetual Capital Securities

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**Issue Price 99.973 per cent. for the Securities**

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The €1,000,000,000 Fixed-to-Reset Rate NC7.1 Perpetual Capital Securities (the “**Securities**”) will be issued by TenneT Holding B.V. (the “**Issuer**”) on 12 April 2017 (the “**Issue Date**”).

The Securities will bear interest on their principal amount from (and including) the Issue Date to (but excluding) 1 June 2024 (the “**First Reset Date**”), at a rate of 2.995 per cent. per annum, payable annually in arrear on 1 June in each year, except that the first payment of interest, to be made on 1 June 2017, will be in respect of the period from (and including) the Issue Date to (but excluding) 1 June 2017 and will amount to €4.10 per €1,000 in principal amount of the Securities. Thereafter, unless previously redeemed, the Securities will bear interest from (and including) the First Reset Date to (but excluding) 1 June 2029 (the “**First Step-up Date**”) at a rate per annum which shall be 2.533 per cent. above the euro 5 year Swap Rate (as defined in the Terms and Conditions of the Securities (the “**Conditions**”)) for the relevant Reset Period (as defined in the Conditions), payable annually in arrear on 1 June in each year. From (and including) the First Step-up Date to (but excluding) 1 June 2044 (the “**Second Step-up Date**”) the Securities will bear interest at a rate per annum which shall be 2.783 per cent. above the euro 5 year Swap Rate for the relevant Reset Period payable annually in arrear on 1 June in each year. From (and including) the Second Step-up Date, the Securities will bear interest at a rate per annum which shall be 3.533 per cent. above the euro 5 year Swap Rate for the relevant Reset Period payable annually in arrear on 1 June in each year, all as more particularly described in “Terms and Conditions of the Securities — Coupon Payments”.

If the Issuer does not elect to redeem the Securities in accordance with Condition 6, following the occurrence of a Change of Control (as defined in the Conditions), the then prevailing interest rate (and each subsequent interest rate otherwise determined in accordance with the Conditions) shall be increased by 5 per cent. per annum with effect from (and including) the date on which the Change of Control Event occurred, see “Terms and Conditions of the Securities — Coupon Payments — Step-up after Change of Control”. The Securities will cease to bear interest from the due date for redemption unless, upon due presentation, payment of principal is improperly withheld or refused. In such event, it shall continue to bear interest at the prevailing Coupon Rate (as defined in the Conditions) in accordance with the Conditions.

The Issuer may, at its discretion, elect to defer any interest, in whole but not in part, except for interest payable upon redemption of the Securities as more particularly described in “Terms and Conditions of the Securities — Deferral of Interest”. Any amounts so deferred, together with further interest accrued thereon at the interest rate per annum prevailing from time to time (which interest shall compound on each Coupon Payment Date (as defined in the Conditions) shall constitute Arrears of Interest (as defined in the Conditions). The Issuer may pay outstanding Arrears of Interest, in whole or in part, at any time in accordance with the Conditions. Notwithstanding this, the Issuer shall pay any outstanding Arrears of Interest, in whole but not in part, on the first to occur of the following dates (i) the 10th Business Day following the date on which a Mandatory Payment Event occurs; (ii) any Coupon Payment Date in respect of which the Issuer does not elect to defer the interest accrued in respect of the relevant interest period; and (iii) the date on which the Securities are redeemed or the Issuer becomes subject to a Winding-up, all as more particularly described in “Terms and Conditions of the Securities — Deferral of Interest”.

The Securities are perpetual securities in respect of which there is no fixed redemption date by which the Issuer would be under the obligation to redeem the Securities and shall be redeemable (at the option of the Issuer) in whole but not in part on any Business Day from and including 1 March 2024 to and including the First Reset Date or any Coupon Payment Date thereafter at their principal amount together with any interest accrued thereon, including any Arrears of Interest and any Additional Amounts, up to (but excluding) the redemption date, see “Terms and Conditions of the Securities — Redemption, Purchase and Modification”. In addition thereto, the Securities may be redeemed at the option of the Issuer, including, without limitation, upon the occurrence of a Withholding Tax Event, an Income Tax Deduction Event, an Accounting Event, a Rating Event, a Change of Control and following the exercise of the Clean-up Call (each as defined in the Conditions), see “Terms and Conditions of the Securities — Redemption, Purchase and Modification”.

The Securities will become due and payable in the event of a winding-up of the Issuer, see “Terms and Conditions of the Securities — Enforcement Events”.

The Securities will be unsecured securities of the Issuer and will constitute subordinated obligations of the Issuer, all as more particularly described in “Terms and Conditions of the Securities — Status, Subordination”.

Payments in respect of the Securities shall be made free and clear of, and without withholding or deduction for, or on account of, taxes of the Netherlands, unless such withholding or deduction is required by law. In the event that any such withholding or deduction is made, additional amounts may be payable by the Issuer, subject to certain exceptions as is more fully described in “Terms and Conditions of the Securities — Taxation”.

**PROHIBITION OF SALES TO EEA RETAIL INVESTORS** – The Securities are not intended, from 1 January 2018, to be offered, sold or otherwise made available to and, with effect from such date, should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (“**EEA**”). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (“**MIFID II**”); or (ii) a customer within the meaning of Directive 2002/92/EC (“**IMD**”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently no key information document required by Regulation (EU) No 1286/2014 (the “**PRIIPs Regulation**”) for offering or selling the Securities or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Securities or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

Application has been made to the Netherlands Authority for the Financial Markets (the “**AFM**”) in its capacity as competent authority under the Dutch Financial Supervision Act (Wet op het financieel toezicht) relating to prospectuses for securities, for the approval of this Prospectus for the purposes of Directive 2003/71/EC (as amended, including by Directive 2010/73/EU), and includes any relevant implementing measure in a relevant Member State of the EEA (the “**Prospectus Directive**”). Application has also been made to Euronext Amsterdam N.V. (“**Euronext**”) for the Securities to be listed and admitted to trading on the regulated market of Euronext in Amsterdam (“**Euronext Amsterdam**”). References in this Prospectus to Securities being “listed” (and all related references) shall mean that such Securities have been listed and admitted to trading on the regulated market of Euronext Amsterdam. Euronext Amsterdam is a regulated market for the purposes of Directive 2004/39/EC of the European Parliament and of the Council on markets in financial instruments.

The Securities will initially be represented by a temporary global security (the “**Temporary Global Security**”), without coupons, which will be deposited with a common depository on behalf of Euroclear Bank S.A./N.V. (“Euroclear”) and Clearstream Banking, société anonyme (“**Clearstream, Luxembourg**”) on or about the Issue Date. The Temporary Global Security will be exchangeable for interests in a permanent global security (the “Permanent Global Security” and together with the Temporary Global Security, the “**Global Securities**”), without coupons, on or after a date which is expected to be 22 May 2017, upon certification as to non-U.S. beneficial ownership. The Permanent Global Security will be exchangeable for definitive Securities in bearer form in the denominations of (i) €100,000 and integral multiples of €1,000 in excess thereof up to, and including, €199,000. No definitive Securities will be issued with a denomination above €199,000, see “Summary of Provisions relating to the Securities while in Global Form”.

The Securities have been rated BB+ by Standard & Poor's Credit Market Services Europe Limited ("**Standard & Poor's**") and Baa3 by Moody's Investors Service, Inc. ("**Moody's**"). Each of Standard & Poor's and Moody's is established in the European Union and is registered under the Regulation (EC) No. 1060/2009 (as amended) (the "**CRA Regulation**"). As at the date of this Prospectus, the Issuer has a long term senior unsecured debt rating of "A-" by Standard & Poor's and "A3" by Moody's. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

Prospective investors should have regard to the factors described under the section headed "Risk Factors" in this Prospectus.

**Joint Structuring Advisers to the Issuer and Joint Lead Managers**

**Barclays**

**Deutsche Bank**

**Joint Lead Managers**

**BNP PARIBAS**

**HSBC**

**ING**

This Prospectus comprises a prospectus for the purposes of the Prospectus Directive and for the purpose of giving information with regard to the Issuer and its subsidiaries and affiliates taken as a whole and the Securities which according to the particular nature of the Issuer and the Securities is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Issuer. The Issuer accepts responsibility for the information contained in this Prospectus. To the best of the knowledge and belief of the Issuer (which has taken all reasonable care to ensure that such is the case), the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

This Prospectus is to be read in conjunction with all the documents which are incorporated herein by reference (see “Documents Incorporated by Reference”).

This Prospectus does not constitute an offer of, or an invitation by or on behalf of the Issuer or the Joint Lead Managers (as defined in “Subscription and Sale” below) to subscribe or purchase, any of the Securities. The distribution of this Prospectus and the offering of the Securities in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus comes are required by the Issuer and the Joint Lead Managers to inform themselves about and to observe any such restrictions.

For a description of further restrictions on offers and sales of Securities and distribution of this Prospectus, see “Subscription and Sale” below.

No person is authorised to give any information or to make any representation not contained in this Prospectus and any information or representation not so contained must not be relied upon as having been authorised by or on behalf of the Issuer or the Joint Lead Managers. Neither the delivery of this Prospectus nor any sale made in connection herewith shall, under any circumstances, create any implication that there has been no change in the affairs of the Issuer since the date hereof or the date upon which this Prospectus has been most recently amended or supplemented or that there has been no adverse change in the financial position of the Issuer since the date hereof or the date upon which this Prospectus has been most recently amended or supplemented or that the information contained in it or any other information supplied in connection with the Securities is correct as of any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

To the fullest extent permitted by law, the Joint Lead Managers accept no responsibility whatsoever for the contents of this Prospectus or for any other statement, made or purported to be made by a Joint Lead Manager or on its behalf in connection with the Issuer or the issue and offering of the Securities. Each Joint Lead Manager accordingly disclaims all and any liability whether arising in tort or contract or otherwise (save as referred to above) which it might otherwise have in respect of this Prospectus or any such statement.

The Securities have not been and will not be registered under the U.S. Securities Act of 1933 (the “Securities Act”) and are subject to U.S. tax law requirements. Subject to certain exceptions, Securities may not be offered, sold or delivered within the United States or to U.S. persons.

References to “euro”, “Euro”, “EUR” and “€” refer to the lawful currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty establishing the European Community as amended by the Treaty on European Union.

In connection with the issue of the Securities, Barclays Bank PLC (the “**Stabilising Manager**”) (or any person acting on behalf of the Stabilising Manager may over-allot Securities or effect transactions with a view to supporting the market price of the Securities at a level higher than that which might otherwise prevail. However, stabilisation may not necessarily occur. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Securities is made and, if begun, may cease at any time, but it must end no later than the earlier of 30 days after the issue date of the Securities and 60

days after the date of the allotment of the Securities. Any stabilisation action or over-allotment must be conducted by the Stabilising Manager (or any person acting on behalf of the Stabilising Manager in accordance with all applicable laws and rules.

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## **Risk Factors**

*The Issuer believes that the following factors may affect its ability to fulfil its obligations under the Securities. All of these factors are contingencies which may or may not occur and the Issuer is not in a position to express a view on the likelihood of any such contingency occurring.*

*Factors which the Issuer believes may be material for the purpose of assessing the market risks associated with the Securities are also described below.*

*The Issuer believes that the factors described below represent the material risks inherent in investing in the Securities, but the Issuer may be unable to pay interest, principal or other amounts on or in connection with the Securities for other reasons, and the Issuer does not represent that the statements below regarding the risks of investing in the Securities are exhaustive. Prospective investors should also read the detailed information set out elsewhere in this Prospectus (including any documents incorporated by reference herein) and reach their own views prior to making any investment decision.*

*Any references in this Prospectus to the “Group” are to the Issuer and its subsidiaries and affiliates taken as a whole.*

*Capitalised terms used herein have the meaning given to them in “Terms and Conditions of the Securities”.*

### **Factors that may affect the Issuer’s ability to fulfil its obligations under or in connection with the Securities**

#### ***Impact of Dutch and German regulatory frameworks on the Issuer’s business financial conditions and net income***

The business, results of operations, revenue, profits, financial position, prospects and cash flows of the Issuer could be affected by the Dutch and German regulatory frameworks, which include both economic and environmental rules and regulations.

The regulated activities of the Group depend on licences, authorisations, exemptions and/or dispensations in order to operate its business. These licences, authorisations, exemptions and/or dispensations may be subject to withdrawal, amendments and/or additional conditions being imposed on the regulated activities of the Group which could affect the revenue, profits and financial position of the Issuer.

The Issuer’s income also depends on interest and dividends received from its subsidiaries. Payments of interest and dividends to the Issuer from TenneT TSO B.V. (“**TenneT TSO NL**”), TenneT TSO GmbH (“**TenneT TSO Germany**”) and TenneT Offshore GmbH (“**TenneT Offshore Germany**”), including their subsidiaries, are generally not regulated (except as set out in the risk factors “*Compliance with the Decree on Financial Management of Grid Operators*” and “*The Issuer is a holding company with no operations and relies on its operating subsidiaries to provide it with the funds necessary to meet its financial obligations*” below). However, the Issuer’s net income is to a large degree derived from the revenues of the regulated activities of its subsidiaries. Such activities of the Issuer’s regulated subsidiaries depend on governmental regulations and European legislation, which implies that, in the end, the Issuer’s net income is sensitive to regulatory amendments and decisions.

#### **Dutch regulatory framework**

The impact of the Dutch regulatory framework on the revenues of TenneT TSO NL can be described as follows.

In 2016, approximately 23% of the Issuer's underlying consolidated revenues were generated by TenneT TSO NL and its subsidiaries. The revenues of TenneT TSO NL are subject to *ex ante*, and to some extent *ex post*, regulation by the Authority Consumer & Market (*Autoriteit Consument & Markt*) (the "ACM"). Therefore, the Dutch regulatory framework has a substantial effect on the dividend and interest income of the Issuer.

#### *Tariff regulation*

The tariffs of TenneT TSO NL are subject to *ex ante* – and to some extent: *ex post* – incentive regulation by the ACM providing for a revenue cap. This applies to both its onshore and its offshore activities. Within the regulatory framework, the ACM adopts various decisions regarding TenneT TSO NL, including method decisions, x-factor decisions and tariff decisions. The first step is a method decision, in which the ACM determines the economic framework for the statutory tasks of TenneT TSO NL for a period of 3 to 5 years. An important part of a method decision is the setting of parameters, of which the most important ones are the individual efficiency factor of TenneT TSO NL ("*theta*", which reflects TenneT TSO NL's efficiency as compared to, and which is determined in comparison with, other European transmission operators, the sector productivity factor ("*frontier shift*") and the projected weighed average costs of capital ("**WACC**"). Other important elements are the value of the regulated asset base, expected investments and the depreciation periods used for the various assets. After the method decisions, the second step is the so-called x-factor decision, in which the ACM determines the efficiency deduction that TenneT TSO NL must apply to its revenues and (consequently) its tariffs for a period of 3 to 5 years. The last step, which is taken annually, is a tariff decision in which the ACM sets the tariffs TenneT TSO NL may charge for its statutory tasks.

TenneT TSO NL's business, financial condition and net income is thus sensitive to and may be materially affected by regulatory decisions which are based on estimated data (such as inflation), historical data, assumptions, research, efficiency and productivity goals which may be too stringent, fail to acknowledge costs which TenneT TSO NL cannot avoid incurring and, consequently, deviate from actual values or costs made. In addition, changes in the value of the parameters or in the regulatory methodology used will impact the revenue levels of TenneT TSO NL and therefore will impact its cash flows, results of operations and financial position.

#### *Tariff regulation for the current regulatory period (2017-2021)*

On 2 September 2016, the ACM published its method decisions for TenneT TSO NL for its onshore transport and system services for the current regulatory period (2017-2021). These decisions apply for a period of five years, instead of three years for previous regulatory periods. The efficiency factor, theta, has been set at 0.958. The frontier shift has been lowered compared to the previous regulatory period (2014-2016) from 1.1% to 0.8% per annum for all costs. A new element is that its application has been broadened to all costs including procurement costs for ancillary services and grid losses. In its method decisions, the ACM has introduced a distinction between a WACC for existing assets and for new assets. The real pre-tax WACC for existing assets has been set at 4.3% and will linearly decrease to an allowed WACC of 3.0% at the end of the current regulatory period. The WACC for new assets has been set at 3.6% in 2016 and will also linearly decrease to 3.0% at the end of the current regulatory period. In addition, the ACM abolished the bonus malus system with capped risk for TenneT TSO NL for the procurement costs for grid losses, reactive power and congestion management for transport services. Instead, the ACM has incentivised limiting these costs by setting a fixed budget on the basis of historic costs and additionally applying a frontier shift on these costs; this effectively exposes TenneT TSO NL to full price and volume risk. The ACM also abolished the bonus malus system for the procurement costs of energy and power for system services. The budget for system services is updated on a rolling forward basis, which also effectively exposes TenneT TSO NL to full price and volume risk. TenneT TSO NL has filed *pro forma* appeals with the *College van Beroep voor het bedrijfsleven* (the "**CBb**") against both the method decision for transport services and the method decision for system services. Hearings are



expected to take place in the fourth quarter of 2017. The Issuer does not expect that the appeals will materially impact its business, prospects and financial condition and net income.

On 16 September 2016, the ACM published the method decision for the offshore grid for the current regulatory period (2017-2021). As the offshore grid is still in the development phase, the method decision takes an approach different from the general regulatory framework. The allowed income for the current regulatory period consists partially of operational costs directly related to the offshore activities, which are based on actual costs of 2015 without recalculation. Furthermore, certain overhead expenditures are re-allocated from onshore to offshore. This re-allocation has no net impact on the financial position of TenneT TSO NL. All other cost items (1% operational expenditure for assets in operation, grid losses based on an annual estimation of TenneT TSO NL, t-0 remuneration for assets under construction and commissioned compensation payments) will be added to the allowed income in yearly income decisions. No benchmark/theta or frontier shift will apply in this first regulatory period. The maximum depreciation period for offshore grid assets is 20 years. The ACM applies a real pre-tax WACC of 3.6% in 2016, linearly decreasing to 3.0% in 2021. This WACC is equal to the onshore WACC for new investments. Efficient costs for offshore Rijkcoördinatierегeling projects will be based on an ex post project specific assessment in the regulatory period 2017-2021. In future regulatory periods, the efficiency of offshore investments may be assessed using an international TSO benchmark. The remuneration of grid losses will be based on an annual cost estimation of TenneT TSO NL without recalculation. The ACM has not yet published a framework for assessing gross negligence of TenneT TSO NL in respect to compensation payments for delays in commissioning and non-availability of the grid. Based on the Dutch Electricity Act 1998 (this act, as amended from time to time, the “**Electricity Act**”), any liability of TenneT TSO NL as offshore system operator to electricity producers can be recouped through future tariffs, including any liability for simple negligence, and liability for gross negligence exceeding EUR 10 million a year.

TenneT TSO NL has filed a *pro forma* appeal with the CBB against the method decision for the offshore grid. Hearings are expected to take place in the fourth quarter of 2017. The Issuer does not expect that the appeals will materially impact its business, prospects, financial condition and net income.

On 22 December 2015, the ACM published the regulatory framework for interconnectors, consisting of a competence agreement (*Bevoegdheidsvereenkomst*) and an incentive decision (*Stimuleringsbesluit*) regarding the Cobra cable and the Doetinchem-Wesel interconnector. The interconnectors will be financed through the transmission tariffs. TenneT TSO NL will receive a return on the investments equal to the regulatory WACC. ACM also stated that the efficiency of the cable is assessed on a project specific basis for a certain period instead of assessing its efficiency by means of the international benchmark (for the Cobra cable 10 years after completion (until 2030 at the latest) and for the Doetinchem-Wesel interconnector as long as the costs have not been assessed in the benchmark). There are also specific agreements on the operational expenditure remuneration of the Cobra cable during that period. The ACM distinguishes between offshore and onshore to reflect the differences in underlying cost structure (offshore: lump sum remuneration of 3.4% of the total investment costs and a recalculation afterwards of 50% of the difference between budget and realised costs; onshore: lump sum remuneration of 1%). For the Doetinchem-Wesel interconnector, the ACM indicated that it accepts the additional costs for the use of Wintrack pylons – a new type of (extra) high-voltage pylon – as a country specific circumstance, which implies that the additional costs would be excluded from the efficiency assessment to ensure a fair comparison.

#### *Ex post tariff recalculations*

The Electricity Act provides for the possibility of correcting TenneT TSO NL’s tariffs *ex post* under specific circumstances. Revenue surpluses and deficits resulting from differences between expected (*ex ante*) and realised (*ex post*) electricity transmission volumes by TenneT TSO NL are incorporated in tariffs of subsequent year(s). TenneT TSO NL therefore should not run any transmission volume risk in the long run.

However, in the short run TenneT TSO NL's reported income is affected by fluctuations in volumes. In addition some other cost items are recalculated. Realised expenses for cross border tariffs (inter-TSO compensation) are fully passed through in the tariffs for subsequent years; this leads to recalculations of future tariffs without any regulatory risk for TenneT TSO NL. The ACM's approach to the reimbursement of costs of ancillary services has changed. As of 2017, the ACM has abolished the bonus malus system with capped risk for TenneT TSO NL and has shifted the entire risk of procurements costs for ancillary activities for transport and system services on to TenneT TSO NL. The ancillary services that TenneT TSO NL procures for system operations are also no longer exposed to a bonus malus system. These costs are re-estimated on a rolling forward basis. However, the differences between the budget and the realisation are borne by TenneT TSO NL. If realised costs are higher than the budget, this may have a material adverse effect on the business, financial condition and net income of TenneT TSO NL.

Furthermore, the method decisions in respect of the current regulatory period (2017-2021) give the ACM certain discretionary powers to correct TenneT TSO NL's tariffs *ex post*. Even though the ACM's method decisions determine which cost types will be recalculated, the ACM has the ability to deviate from this. Apart from the method decisions, there is also a general possibility for the ACM under the Electricity Act to recalculate tariff income, e.g. for matters which had not been foreseen at the time of the relevant method decision.

#### *Regulatory decisions and proceedings*

As mentioned above, the revenues of TenneT TSO NL are influenced by regulatory decisions including the method decisions of the ACM. The outcome of such regulatory decisions and any related or other proceedings may affect the business, financial condition and net income of TenneT TSO NL and the Issuer. In general, the assessment of exposures and ultimate outcomes of regulatory decisions and legal and regulatory proceedings involves uncertainties and may be subject to change.

For example, certain parties connected to TenneT TSO NL's network are disputing or may dispute invoiced amounts relating to transmission and system services rendered by TenneT TSO NL. The related amounts can currently not be reliably estimated and it is also unclear if all of such amounts would be recoverable by TenneT TSO NL through future tariffs.

#### *Certification as a transmission system operator*

TenneT TSO NL is currently certified as transmission system operator (a "TSO") for the Dutch national (extra) high voltage grid and as interconnector operator for the southern part of the NorNed Cable and fully complies with all applicable requirements. In addition, TenneT TSO NL has recently been certified and appointed as the sole offshore grid operator in the Netherlands. There can be no assurance that either of these certifications will never be revoked and subsequently needs to be obtained again, e.g. because of non-compliance by TenneT TSO NL with certification requirements or change of conditions and/or regulation.

#### *Compliance with the Decree on Financial Management of Grid Operators*

The Decree on Financial Management of Grid Operators (*Besluit Financieel Beheer Netbeheerder*) ("BFBN") contains requirements regarding the financial situation of grid operators in the Netherlands. Pursuant to article 18a paragraph 4 of the Electricity Act, a TSO which does not have a senior unsecured credit rating of at least BBB minus and fails to meet any of the BFBN financial ratios is required to take the following steps: (i) forthwith send a written notice to the ACM and (ii) within four weeks after such notice provide the ACM with a recovery plan describing how financial management will be improved to meet the requirements of the BFBN. In addition, a TSO which does not comply with the requirements of the BFBN may not distribute dividends to its shareholders. With respect to the financial year 2015, TenneT TSO NL did not have a senior unsecured credit rating and failed to comply with one of the financial ratios imposed by the BFBN. This was caused by a non-recurring accounting impact. Over the financial year 2016, TenneT TSO NL failed to comply

with the BFBN, i.e. with the financial ratios regarding operating profit divided by the gross debt service on loans and regarding funds from operations divided by total debt (Article 2 paragraph 1 under a and c BFBN), and is therefore not allowed to distribute dividend to the Issuer. This was mainly caused by IFRS, which does not fully allow for the recognition of regulatory assets and liabilities. TenneT TSO NL will submit its recovery plan to the ACM in April 2017. The Issuer, not being a transmission system operator itself, is still allowed to distribute dividends to its shareholder.

### **German regulatory framework**

The business, results of operations, revenues, profits, financial position, prospects and cash flows of the Issuer may also be affected by the German regulatory framework applicable to TenneT TSO Germany and TenneT Offshore Germany.

#### *Revenue structure and grid tariffs*

In 2016, approximately 77% of the Issuer's underlying consolidated revenues (excluding selling electricity from renewable energy sources or from revenues resulting from balancing of cogeneration volumes) were generated by TenneT TSO Germany and its affiliated entities. The revenues of TenneT TSO Germany are derived from the operation of the transmission grid and are subject to regulation by the German Federal Network Agency (*Bundesnetzagentur*, "**BNetzA**"). Consequently, TenneT TSO Germany's overall business, financial condition and net income are – similar to TenneT TSO NL – sensitive to regulatory changes and decisions of the regulator. Such changes and decisions may impact the revenue levels of TenneT TSO Germany and may therefore impact its cash flows.

#### *Regulation of grid tariffs*

The revenues of TenneT TSO Germany are influenced by the regulatory framework as well as decisions and determinations by BNetzA. The German Energy Industry Act (*Energiewirtschaftsgesetz*, "**EnWG**"), the Ordinance on Incentive Regulation (*Anreizregulierungsverordnung*, "**ARegV**") and the Ordinance on Tariffs for the Electricity Grid Access (*Stromnetzentgeltverordnung*, "**StromNEV**") provide the main statutory framework for the regulation of network operators' revenues. In September 2016 certain amendments to the ARegV were implemented. The majority of the changes apply to distribution grid operators only. However, some changes equally affect TSOs or are TSO-specific, most importantly changes with respect to replacement shares for so-called investment measures were implemented which may affect the revenues of TenneT TSO Germany.

Based on the allowed revenues established by BNetzA the grid operators calculate their grid tariffs independently. In this respect, TenneT TSO Germany is dependent on a series of formal regulatory decisions and assessments by BNetzA, notably the determination of the cost base level (*Ausgangsniveau*) which determines the basis for the revenue caps in each year of the regulatory period (currently: second regulatory period 2014-2018) including the calculation of the cost base level, the determination of the rates of imputed return on equity applicable for the relevant regulatory period, the assessment and determination of the individual efficiency factor, the determination of the sectorial productivity factor and, the approval of investment measures providing financing for certain measures, particularly for grid extension and grid restructuring measures.

The calculation of the initial cost base level for the revenue cap of the next regulatory period is based on the operational and capital grid costs incurred in the third closed business year (so called "photo year") of the current regulatory period. The year 2016 is the photo year for the upcoming third regulatory period 2019-2023. Thus, the revenue cap determined by BNetzA reflects remuneration for both operational and capital expenditures. In this respect, capital expenditures comprise in particular imputed depreciation for the regulated asset base, imputed return on equity and – to the extent consistent with market rates – the actual costs of debt.

For the current second regulatory period, BNetzA had determined the following rates of return on equity (which is capped at a maximum of 40% of total capital): 7.18% (before corporate tax, after trade tax) apply to so-called “old assets”, i.e. assets commissioned prior to 1 January 2006. This reflects a real interest rate (*Realzins*) applying to acquisition and production costs subject to indexation to reflect the current value of the assets (*Tagesneuwerte*). An imputed interest rate of 9.05% (before corporate tax, after trade tax) applies to so-called “new assets”, i.e. assets commissioned on or after 1 January 2006. This reflects a nominal interest rate (*Nominalzins*) applying to historical acquisition and production costs (*Herstellungs- und Anschaffungskosten*) of the respective assets. On 12 October 2016 BNetzA published its final decision on the allowed rates of return on equity for electricity networks in Germany for the third regulatory period (2019-2023): equating to 5.12% (before corporate tax, after trade tax) for “old assets” and 6.91% (before corporate tax, after trade tax) for “new assets”. The lower rates for the third regulatory period (compared to the current regulatory period) – if they become binding – would reduce the revenue levels of TenneT TSO Germany and therefore affect its cash flows, results of operations and financial position. The decision of BNetzA has been appealed by various grid operators, including TenneT TSO Germany, TenneT Offshore 1. Beteiligungsgesellschaft mbH, TenneT Offshore 9. Beteiligungsgesellschaft mbH and TenneT Offshore DolWin 3 GmbH & Co. KG. However, the decision of BNetzA would still be enforceable and, thus, applicable, unless the court suspends its enforceability in summary proceedings or repeals the decision in a binding ruling.

BNetzA is obliged to determine individual efficiency factors for grid operators prior to the onset of the subsequent regulatory period. Historically, for TSOs, this has been achieved via a European efficiency benchmarking. With the most recent amendment of the ARegV, it has become possible for BNetzA to directly substitute the European efficiency benchmarking with a reference grid analysis. Irrespective of the methodology applied, costs qualified as permanently non-influenceable (*dauerhaft nicht beeinflussbare Kostenanteile*) are not subject to individual efficiency review. Thus, only those costs which potentially qualify as temporarily non-influenceable costs (*vorübergehend nicht beeinflussbare Kostenanteile*) shall be subject to an efficiency benchmarking review. As a result of such review certain influenceable costs (*beeinflussbare Kostenanteile*) expressed as the share of the temporarily non-influenceable costs may be defined as inefficient. Based on an international TSO benchmark, BNetzA determined an individual efficiency factor for TenneT TSO Germany for the second regulatory period of 97%. The determination of the individual efficiency factor for the third regulatory period (which has not yet been determined) will take into account the grid costs of the photo year 2016. Furthermore, both influenceable and temporarily non-influenceable costs are adjusted by a sectorial productivity factor and the consumer price index. While the sectorial productivity factor has been stipulated by law for the second regulatory period amounting to 1.5% per annum, BNetzA is entitled to assess and determine this factor for the third regulatory period. As a consequence, a lower individual efficiency factor and / or a higher sectorial productivity factor for the third regulatory period would negatively affect TenneT TSO Germany’s profits. If TenneT TSO Germany were to become less efficient during the regulatory period, this would negatively affect its profits and financial position.

Contrary to influenceable and temporarily non-influenceable costs, permanently non-influenceable costs of TenneT TSO Germany are neither subject to individual efficiency targets nor to the sectorial productivity factor. Rather, such costs are comprehensively recognised under the revenue cap of TenneT TSO Germany. Hence, any increase or decrease of permanently non-influenceable costs will be taken into account by amending the revenue cap on a yearly basis during a regulatory period either without delay (*e.g.* for investment measures) or with a delay of two years (*e.g.* for certain grid system services). Most importantly, permanently non-influenceable costs comprise those costs recognised under approved investment measures for, *inter alia*, the construction of new (additional) transmission lines, underground cables and offshore grid connection lines.

### *Connection of offshore wind farms*

On 28 December 2012, the German legislator introduced a “system change” in relation to the development and construction of offshore grid connection systems extending from the offshore wind farms (“**OWF**”) to the nearest technologically and economically feasible onshore grid connection point (“**OWF Connections**”). TenneT TSO Germany as the responsible TSO is obliged to realise OWF Connections to the German coast of the North Sea. Offshore grid expansion is currently based on the federal offshore plan (*Bundesfachplan Offshore*) and the offshore grid development plan (*O-NEP*). This statutory framework further provides for a binding completion date of OWF Connections. To that effect, TenneT TSO Germany has to publish on its website a preliminary completion date which becomes binding 30 months prior to the envisaged completion. On the basis of planned OWFs and OWF Connections as well as under consideration of the statutory offshore grid expansion target, BNetzA allocates offshore grid connection capacities to OWFs by way of formal administrative decision. The maximum allocable (*zuweisbare*) offshore connection capacity is limited by law to 6.5 GW until 31 December 2020. However, BNetzA made use of its statutory authorisation to increase this expansion target to 7.7 GW. Furthermore, to ensure an economically efficient use of available offshore grid connection capacities, BNetzA is also allowed to re-allocate capacities for certain OWFs. In this respect, in 2015 BNetzA re-allocated 400 MW capacity of OWF “Global Tech I”. Once this decision becomes binding, TenneT TSO Germany would most likely not be required to construct the OWF Connection BorWin4. The developer of OWF “Atlantis I” (PNE WIND Atlantis I GmbH) appealed BNetzA’s relocation decision. However the Higher Regional Court has recently rejected the appeal. The ruling is not yet binding. In this context, the same claimant also appealed several decisions of BNetzA to allocate (small amounts of) offshore grid connection capacities. These claims were rejected by the Higher Regional Court but have been appealed to the Federal Court of Justice. Should the claimant succeed it cannot be entirely excluded that TenneT TSO Germany has to realise OWF Connection BorWin4.

On 1 January 2017, another legislative “system change” came into effect. The legislator amended the German Renewable Energy Sources Act (*Erneuerbare Energien Gesetz*, “**EEG**”). In deviation from the former regime, under the new law the remuneration of certain renewable energy sources (including offshore wind) is no longer based on fixed feed-in tariffs (in conjunction with market premiums). Instead, from 2017, the remuneration is determined by competitive auction procedures. To this effect, with regard to offshore wind, the legislator has adopted an Offshore Wind Act (*Windenergie-auf-See-Gesetz*) which also came into effect on 1 January 2017. According to the new law, as of 2021 offshore capacities of 700 MW to 900 MW per year shall be auctioned to developers/operators of OWFs for the period as of 2026. For a transitional period, two auction proceedings shall take place already in 2017 and 2018. In each of these proceedings capacities of up to 1,550 MW shall be auctioned. The successful bidders shall subsequently construct and commission their OWFs between 2021 and 2025.

OWF Connections are normally constructed under turnkey construction agreements (so-called EPC-contracts) which are in most cases concluded between TenneT Offshore Germany or subsidiaries of TenneT Offshore Germany as contractees and consortiums as contractors. The contractor of OWF Connection DolWin1 filed a judicial claim against TenneT Offshore 7. Beteiligungsgesellschaft mbH, a subsidiary of TenneT Offshore Germany. The contractor applies for a formal declaration that TenneT Offshore 7. Beteiligungsgesellschaft mbH is not entitled to claim penalty payments resulting from delays. Instead the contractor itself claims compensation payments as well as the transfer of security bonds (*Sicherheitsbürgschaften*). Furthermore, the claimant seeks a formal declaration that TenneT Offshore 7. Beteiligungsgesellschaft mbH is required to pay compensation for all additional costs resulting from works, damages and other disadvantages. TenneT Offshore 7. Beteiligungsgesellschaft mbH believes that the claim is unjustified. The claim is still pending. However, it cannot be ruled out that the binding ruling may have a negative impact on the financial position of TenneT Offshore Germany and/or TenneT TSO Germany.

In January 2017, the consortium contractor of OWF Connections BorWin 2, HelWin 1 and SylWin 1 filed judicial claims for each project against the respective contractees TenneT Offshore 1. Beteiligungsgesellschaft mbH, TenneT Offshore GmbH and TenneT Offshore 7. Beteiligungsgesellschaft mbH.

In each claim the consortium contractor applies primarily for allegedly outstanding payments and challenges the offset of those payments against the contractee's claim for penalty payments resulting from delays. TenneT Offshore 1. Beteiligungsgesellschaft mbH, TenneT Offshore GmbH and TenneT Offshore 7. Beteiligungsgesellschaft mbH, respectively, believe that the claims are unjustified. The claims are still pending. However, it cannot be ruled out that the binding ruling may have a negative impact on the financial position of TenneT Offshore Germany and/or TenneT TSO Germany.

The realisation of OWF Connections requires large scale investments. Respective investments costs are generally approved by BNetzA under so-called investment measures reimbursement of both capital and operational expenditures (whereby the latter amount to a lump sum of currently 3.4% of the investment costs). Costs approved under investment measures are qualified as permanently non-influenceable costs to which no efficiency targets apply. BNetzA approves such costs solely on the merits. By consequence, the costs are included in the revenue cap based on planned costs (at t-0). Only thereafter an annual *ex post* as-is-evaluation of the costs is conducted. Any deviations between planned and actual costs will be reflected in the regulatory account. There is a risk that BNetzA does not approve certain capital expenditures, which would have a negative effect on the financial position of TenneT TSO Germany if those cost positions are not covered through other mechanisms. Furthermore, it cannot be ruled out that the lump-sum for operational expenditures will be exceeded by actual operating costs, or that BNetzA will reduce the lump-sum by issuing a new formal decision in the future. Regarding the latter, official proceedings were initiated by the BNetzA Decision Chamber 4 in January 2017.

TenneT TSO Germany is entitled to pass through the approved costs resulting from the construction, operation and maintenance of the OWF Connections to the other TSOs (so-called horizontal cost balancing). Such pass through of costs applies to both the investment measure phase and the subsequent "regular" incentive regulation phase. Respective pass through amounts are proportional to the end consumers' share of energy consumption within the respective control areas of the TSOs. Although such horizontal cost balancing does not require any formal *ex ante* approval by BNetzA or a contractual arrangement between the TSOs, the TSOs nevertheless agreed on a horizontal balancing agreement in 2009 which was amended in 2013.

In particular under the former regulatory regime which was replaced on 28 December 2012 the construction of several OWF Connections was delayed. As a consequence of such delays, in particular operators and developers of OWFs which received an unconditional grid connection commitment before 29 August 2012 under the former regulatory regime (so-called "old cases") may, in principle, initiate abuse proceedings against TenneT TSO Germany and/or claim damages in civil court proceedings. In 2012, the developer of the OWF "Borkum" (previously "Borkum West II") filed a judicial claim for substantial damages incurred as a result of the delayed OWF Connection. The claim is based on the alleged infringement of the previous (now repealed) regulatory framework. On 3 March 2016, the competent court rejected the claims in their entirety. In its ruling, the court found that claims for compensation of financial losses which exceed the statutory compensation under the new statutory regime (for details see below) are unfounded. The claimant has appealed the ruling to the Higher Regional Court. The claim is still pending. It cannot be entirely ruled out that the final rulings in these proceedings may have a negative impact on the financial position of TenneT TSO Germany.

As part of the statutory regime effective as of 28 December 2012, the legislator also implemented an offshore liability regime. The liability regime limits the monetary impact on TenneT TSO Germany of claims regarding delays and interruptions of OWF Connections. It applies, in principle, to both OWFs which fall

exclusively under the new regime as well as OWFs which received an unconditional grid connection commitment by 29 August 2012 under the former, now repealed regime (old cases).

Under this liability regime, OWF operators may claim compensation amounting to 90% of the feed-in remuneration from the eleventh day of the (continuous) delay or interruption of the OWF Connection, or as of day nineteen if several short interruptions add up to more than eighteen days during a calendar year. Alternatively, OWF operators can opt for a prolonged period with subsidized feed-in tariffs. If the TSO acted wilfully, the compensation would increase to 100% of lost feed-in remuneration as of day one. In case of interruptions due to maintenance work which adds up to ten days during a calendar year, the concerned OWF operators can also request compensation as of day eleven. Any further claims by OWF developers/operators for pecuniary losses beyond such compensation for lost feed-in remuneration are explicitly excluded under the new statutory framework. There is minor uncertainty whether TenneT TSO Germany is entitled to reduce the compensation by a “correction factor” which reflects the so-called “wake effect”, *i.e.* the reduced (actual) feed-in by offshore turbines because of shadowing effects of other turbines. The practice of TenneT TSO Germany is in line with the approach of BNetzA. In this respect, a judicial claim was lodged in December 2016 by the operator of OWF “Global Tech I” against TenneT TSO Germany and TenneT Offshore 1. Beteiligungsgesellschaft mbH. The operator claims a substantial amount of additional compensation payments under the liability regime arguing primarily that TenneT TSO Germany and/or its contractors have intentionally delayed the construction of the OWF Connection BorWin2 and that TenneT TSO Germany has incorrectly applied the statutory compensation rules. TenneT TSO Germany believes that the claim is unjustified. However, it cannot be entirely ruled out that the final rulings in this proceeding may have a negative impact on the financial position of TenneT TSO Germany.

In order to claim compensation under the liability regime, the OWF operator must demonstrate that the OWF has achieved actual operational readiness (or assumed operational readiness as specified by law) during the phase of interruption or delay. In this respect, in 2016 the operator of OWF “Bard Offshore I” has filed a judicial claim against TenneT TSO Germany and TenneT Offshore 1. Beteiligungsgesellschaft mbH, a subsidiary of TenneT Offshore Germany. The claim is mainly based on allegedly outstanding compensation and feed-in payments in the period between 2012 and 2015. The claimant argues, *inter alia*, that compensation also has to be paid if the lack of the actual operational readiness results (directly or indirectly) from the interruption caused by the TSO. TenneT TSO Germany believes that the claim is unjustified. Furthermore, the operator of OWF “DanTysk” (DanTysk Offshore Wind GmbH) has filed a complaint against BNetzA’s decision concerning the exact details of the calculation of wind profiles to determine compensation payments for delayed grid connection. The decision by BNetzA was in line with TenneT’s compensation principles. Both claims are still pending. The binding rulings may have a negative impact on the financial position of TenneT TSO Germany and/or TenneT Offshore Germany, however only if and to the extent the claims were (partly) justified and the payments resulting therefrom could not be passed through to the end customers.

In case of compensation payments to OWF operators, TenneT TSO Germany’s operational costs will increase. However, in principle, TenneT TSO Germany is entitled – possibly with a time lag – to pass through compensation payments for delays and interruptions to the other TSOs and eventually to end consumers (so-called offshore liability balancing regime). In October 2013, BNetzA issued guidelines clarifying the criteria which have to be fulfilled to be entitled to pass through compensation payments. The amounts passed through are proportional to the end consumers’ share of energy consumption within the respective control areas of the TSOs. Subsequently, the TSOs are entitled to refinance their share of the compensation payments by charging an – annually capped – liability levy to end consumers. However, the right for TenneT TSO Germany as the connecting TSO to put compensation payments into the levy is excluded or limited (i) if the delay or interruption is caused wilfully, (ii) if not all feasible and reasonable preventive or remediation measures have been taken, or (iii) to the extent the levy charged to end consumers exceeds the threshold of 0.25 cent/kWh. In

the latter case the exceeding amounts (including any pre-financing costs) may, however, be included in the levy in the following years.

Moreover, if delays or interruptions are caused by any degree of negligence of TenneT TSO Germany, the compensation amount subject to the offshore liability balancing regime has to be reduced by a deductible amount (*Eigenanteil*) for TenneT TSO Germany. However, the applicable provisions limit such deductible amount in the event of delayed connection or unavailability during operations to EUR 17.5 million per connection per (damaging) event in case of simple negligence and to EUR 110 million per year in total, irrespective of whether (several) delays or interruptions have been caused by simple or gross negligence. Although it cannot be entirely ruled out that certain delays have been or will be caused by wilful misconduct or by gross or simple negligence (which would have an impact on the profits and financial position of TenneT TSO Germany), so far BNetzA has not found that TenneT TSO Germany acted negligently or wilfully in this respect.

#### *Certification as a transmission system operator*

Pursuant to the European and German legislative framework, TenneT TSO Germany – as well as other TSOs – was obligated to apply for certification as a transmission system operator to BNetzA. For certification, TSOs must demonstrate compliance with ownership unbundling requirements including, *inter alia*, sufficient financial capability and reliability. BNetzA certified TenneT TSO Germany by its decision dated 3 August 2015. Similar to TenneT TSO NL, there can be no assurance that the certification will never be revoked and subsequently needs to be obtained again, *e.g.* because of non-compliance by TenneT TSO Germany with certification requirements or change of conditions and/or regulation.

#### *System Responsibility*

In general, grid operators are obligated to operate and maintain a safe, reliable and efficient grid on a non-discriminatory basis. To this effect TenneT TSO Germany is responsible for a control area (*Regelzone*) and under the obligation to continuously ensure the capability and reliability of the transmission grid system. This requires, in particular, continuous investments in the grid as well as network-related or market-related measures. Such measures include, *inter alia*, congestion management measures to renewable energy facilities and redispatch-measures, *i.e.* the adjustment of feed-in from electricity generation or storage facilities. The legal framework applying to such system services has been amended by the Electricity Market Act (*Strommarktgesetz*) which entered into effect on 30 July 2016. The new law includes, *inter alia*, amendments in relation to redispatch-measures and decommissioning of generation facilities. Costs incurred by TenneT TSO Germany resulting from such measures are normally recognised by BNetzA as grid-related costs subject to reimbursement under the incentive regulation regime.

In this context, in 2016 and 2017 the operators of the power plants Irsching 4 and 5, Franken, Heyden, Wilhelmshaven, Ingolstadt, Audorf, Itzehoe and Huntorf lodged several lawsuits against TenneT TSO Germany. The judicial claims relate to a prohibition issued by TenneT TSO Germany to temporarily decommission the power plant Irsching 4 and to allegedly outstanding compensation for redispatch-measures for the other power plants. TenneT TSO Germany believes that these claims are unjustified. The claims are still pending. Although costs resulting from redispatch-measures are generally classified as permanently non-influencable costs and thus fully reimbursed under the incentive regulation, it cannot be entirely ruled out that the outcome of these claims may have a negative impact on the financial position of TenneT TSO Germany.

In the context of the European market area, there are ongoing discussions regarding the continuous decrease of cross-border capacities that TSOs make available for cross-border trades. In this connection, TenneT TSO Germany and other German TSOs have been accused of projecting internal congestions to national borders in violation of European Union legislation, in particular the border between Germany and Denmark. TenneT TSO Germany believes that these accusations are unjustified. However, it cannot be ruled out that the ongoing



discussions will result in actions from European authorities that will adversely impact the financial position of TenneT TSO Germany, either directly through claims or penalties or indirectly through other measures that impact the German market.

### ***Operational risks and risks related to material projects***

#### *Operational, technical and realisation risk*

The Issuer faces a substantial investment programme in the coming years to (i) connect renewable and conventional electricity production capacity to the grid; (ii) ensure optimal grid availability (security of supply); and (iii) ensure the further integration of the North West Europe electricity market (a region in Europe that includes the Netherlands, Germany, Belgium, Denmark, United Kingdom, France, Norway, Sweden, Finland and Luxembourg). The level, complexity and innovative character of these investment projects brings along operational risks. For example, the increased demand for new (extra) high-voltage underground connections can affect the reliability of the transmission network. Technical problems with underground cables are more expensive and require longer time to repair than problems with overhead power lines.

Furthermore, there is a risk, amongst others, of insufficient supplier capacity to realise the substantial investment programme. The development of several large projects simultaneously and introduction of new combinations of existing technology in, *inter alia*, platform design, construction and installation of offshore high voltage direct current (“HVDC”) converter stations increases realisation risks for projects. Also, due to the novelty and complexity of HVDC connections, further technical as well as operational issues might arise after the construction phase (*e.g.* harmonic disturbances). Accordingly, should any such risks occur, these may result in increased costs, which may result in curtailment or suspension of the Issuer’s related operations. As a result, the manifestation of such risks could have a material adverse effect on the Issuer’s business, financial condition and net income.

#### *Grid Performance / risk of blackouts*

Due to more intensive grid usage, the market integration of the European electricity markets and increased feed-in from renewable energy, combined with the condition of the grid, there is an increased risk of more interruptions and/or incidents on the grid of TenneT TSO NL and TenneT TSO Germany.

The Issuer manages this risk by increasing the speed of replacements and investments in its current network, combined with improved IT-systems to steer the network. Furthermore, a terrorist attack might cause a blackout. The Issuer manages the risk of a terrorist attack mainly by improving its security measures in relation to its critical stations. To the extent that TenneT fails to manage those risks, the occurrence thereof could have a material adverse effect on the Issuer’s business, financial condition and net income.

#### *Reputational damage*

The Issuer and its subsidiaries perform public tasks. Therefore the Issuer carries an increased risk of reputational damage. Part of the Issuer’s investment programme is related to the development of the onshore grid. In case of any resistance from residents living closely to newly built onshore lines, investments can be delayed, which could affect future grid performance. Incidents or interruptions on the grid, stranded investments or increased costs for society could also have negative effects on the Issuer’s reputation which could diminish political or public acceptance. Furthermore, the change of the energy landscape increases the complexity of mid- and long term planning. The deviation by the Issuer from earlier made external statements could have a negative effect on its external credibility of the Issuer and its reputation, which could have a material adverse effect on the Issuer’s business, financial condition and net income.

#### *Lack or loss of highly qualified personnel*

The Issuer experiences increasing difficulties in finding, attracting and retaining highly qualified technical personnel required to support its operations. A lack or loss of highly qualified staff may result in insufficient expertise and know-how and may result in unsatisfactory quality levels of the Issuer's operations, the inability to operate the Issuer's grid, delays in completion of infrastructure projects, or failure to meet strategic objectives. The occurrence of one of such risks could have a material adverse effect on the Issuer's business, financial condition and net income.

#### *Dependency on information technology systems*

The Issuer's operations and business processes depend on the availability of information technology ("IT") systems. The Issuer has in place IT solutions and information security management systems to ensure the uninterrupted operation of its IT systems. Risks are significant interruptions in the availability of IT systems, inability of the Issuer to adapt to the fast changes in the IT domain and technical problems compromising the accessibility or confidentiality of business-critical information. In addition, there is a risk that the Issuer could be the target of external attempts to gain unauthorised access to its IT systems. Each of these events could have a material adverse effect on the Issuer's business, financial condition or results of operations.

#### ***Impact of environmental issues relating to subsidiaries of Issuer on the Issuer's business, financial condition and net income***

The Issuer has an established environmental policy in order to meet all applicable environmental standards. Personal and external safety, health and environment are focal points in the Issuer's policies.

The operations and properties of subsidiaries of the Issuer are subject to various local and EU laws and regulations concerning the protection of the environment, including regulation of air and water quality, controls of hazardous or toxic substances and guidelines regarding health and safety. Subsidiaries of the Issuer may be required to pay for clean-up costs (and in specific circumstances, for aftercare costs) for any contaminated property they currently own or have owned in the past.

Environmental laws can impose liability without regard to whether the owner or operator had knowledge of the release of substances or caused the release. Although the Issuer does not have knowledge of its properties currently requiring immediate remediation or decontamination or other measures related to environmental obligations except as provisioned for, environmental authorities may have a different opinion. Third parties may also initiate proceedings to require decontamination. Hence, one or more of the Issuer's subsidiaries may be required to initiate a costly, extensive and time-consuming clean up at one or more of its properties, in addition to running the risk of incremental penalty payments or other penalties. Such requirements (imposed on the subsidiaries of the Issuer) could have a material adverse effect on the Issuer's business, financial condition and net income.

A risk in both the Netherlands and Germany is posed by the use of sulphur hexafluoride ("SF6") in the absence of technically feasible alternatives for certain types of (extra) high-voltage switchgear. SF6 is a potent greenhouse gas. SF6 is used in closed systems, but it may be released through small leaks and/or during maintenance work on the installation.

Another potential risk in both the Netherlands and Germany concerns the (alleged) effects that electromagnetic fields emanating from transmission lines may have on (health of) humans in the surrounding areas of such power lines. The Issuer expects that the policy on transmission lines will become more restrictive in the future and that stricter legal requirements may be imposed. An example is the general shift towards constructing transmission lines underground, which may result in technology risks and significantly higher costs.

In Germany, on 31 December 2015 an amendment to the legal framework applying to the construction of energy transmission lines (*Gesetz zur Änderung von Bestimmungen des Rechts des Energieleitungsbaus*) entered into effect. The new law introduced, in particular, the priority of underground cabling for all onshore DC connection transmission lines such as the north-south “SuedLink” line. However, the law also provides for a number of exemptions under which overhead transmission lines are still permitted. As a consequence, the Issuer has to make adjustments to the originally planned route for the SuedLink project and revisit the affected communities to update them on expected implications resulting from the amended law. Furthermore, such additional planning and approval requirements will most likely delay the realisation of onshore DC connection lines such as SuedLink. Underground cabling for SuedLink will also require a substantially higher investment than the conventional overhead power line that was originally planned.

With regard to TenneT TSO Germany, there is also a potential risk of soil contamination at electricity towers and substations in Germany caused by corrosion protection coatings containing heavy metals, in particular lead. TenneT TSO Germany has contacted the competent state authorities in order to develop and implement methods for the investigation of such potential soil contamination at the respective sites. In addition, TenneT TSO Germany has implemented preventive measures, including the renewal of the coatings of a number of pylons in order to actively prevent lead contamination.

Any of the above developments may affect the timing and amount of investments by the Issuer, could result in increased expenditures on the part of the Issuer and in potential liability risks in relation to damages claimed by affected persons.

### **Risks relating to the structure of the Issuer**

#### ***The Issuer is a holding company with no operations and relies on its operating subsidiaries to provide it with the funds necessary to meet its financial obligations***

The Issuer is a holding company with no material, direct business operations. The principal assets of the Issuer are the equity interests it directly or indirectly holds in its operating subsidiaries. As a result, the Issuer is dependent on loans, interest, dividends and other payments from its subsidiaries to generate the funds necessary to meet its financial obligations, including the payment of dividends to its shareholder and the payment of interest and principal to its creditors, including the investors in the Securities. The ability of the Issuer’s subsidiaries to make such distributions and other payments depends on their earnings and may be subject to statutory or contractual restrictions. In this respect, reference is made to the risk factor “*Compliance with the Decree on Financial Management of Transmission System Operators*” above.

The German Limited Liability Companies Act (“**GmbHG**”) provides for a strict prohibition on the repayment of the nominal share capital of a German Limited Liability Company (“**GmbH**”). Under these capital maintenance rules such GmbH is required to preserve its nominal share capital. Any payment made and/or any financial advantage granted by a GmbH to its direct or indirect shareholders (or their affiliated companies) which is not made out of the company’s free net assets (*i.e.* results in the company’s equity falling below the nominal share capital or deepens an existing shortfall of the company’s equity below the nominal share capital) is unlawful. The capital maintenance rules are interpreted broadly and do not only apply to cash payments but also to all other types of benefits with a financial or commercial value granted by a GmbH, including, in particular, upstream guarantees and other securities. As a consequence, any financial assistance by a GmbH to its direct or indirect shareholders and/or any of their affiliates must be limited to the amount of the free net assets of the company.

Regardless of compliance with the capital maintenance rules, a shareholder may not withdraw assets from such GmbH with which such GmbH needs to fulfil its obligations towards its creditors. The removal of such vital assets is deemed a so-called “destructive intervention” (*existenzvernichtender Eingriff*). Furthermore, the

GmbHG prohibits the company's managing directors from making any payment to the shareholder(s) if such payment would lead with reasonable likelihood to the company becoming illiquid (*zahlungsunfähig*) in terms of the German Insolvency Act (*InsO*) (i.e. insolvent due to lack of sufficient liquid assets).

Due to the above-described legal framework, the ability of the Issuer to upstream cash from TenneT TSO Germany in order to meet its obligations under the Securities is restricted. Consequently, if amounts that the Issuer receives from its subsidiaries are not sufficient, the Issuer may not be able to fulfil its obligations under the Securities.

As an equity investor in its subsidiaries, the Issuer's right to receive assets upon their liquidation or reorganisation will be effectively subordinated to the claims of creditors of its subsidiaries. To the extent that the Issuer is recognised as a creditor of such subsidiaries, the Issuer's claims may still be subordinated to any security interest in or other lien on their assets and to any of their debt or other obligations that are senior to the Issuer's claims.

### ***Influence of the State of the Netherlands as the sole shareholder of the Issuer***

The Issuer is controlled by the State of the Netherlands (the "**State**"), being the sole holder of the shares in the share capital of the Issuer. The Issuer's current dividend policy is to pay 35% of the underlying distributable profit after income allocated to project investors and distributions made to hybrid capital holders as dividend to its shareholder. The State has a strong interest in maintaining a healthy profile for the Issuer and has agreed to lower dividends when deemed appropriate. Through its role as sole shareholder, policymaker and legislator the State has a strong influence on the Issuer's operations, which depending on the circumstances may positively or negatively influence the Issuer's business, financial condition and net income.

On 18 October 2013, the Dutch government published its Policy on Government Participations 2013 (*Nota Deelnemingenbeleid 2013*, the "**Policy on Government Participations 2013**"). In the Policy on Government Participations 2013, the State resolved that it will seek further influence over the Issuer, e.g. in respect of important investments and in respect of the appointment of members of the management boards and supervisory boards of its participations (see "*Business Description of the Issuer – Corporate Governance*").

Potential conflicts of interest may exist between the objectives of the Group versus national interest of the State. In addition there is a risk of a political conflict of interest regarding national energy strategy between the Netherlands and Germany. It cannot be ensured that all decisions and actions taken by the State as the sole shareholder of the Issuer are fully compatible with the Issuer's interests. Such decisions and actions may result in lower revenues or a lower profit margin which could have a material adverse effect on the Issuer's business, financial condition and net income.

### ***Risks resulting from joint ventures and collaborations***

The Issuer engages in economic activities with other companies through joint ventures, participations and collaborations. As the Issuer does not have full control in such joint ventures, participations and collaborations, it cannot be ensured that all decisions taken within such joint ventures, participations and collaborations are fully compatible with the Issuer's interests. This may result in a deadlock situation and an inability to distribute profits or make further necessary investments. In some cases, the Issuer may receive less information relating to the business activities of these companies than it would if it were a wholly-owned Group company. Decisions made and actions taken may result in lower revenues or a lower profit margin concerning the joint ventures, participations and collaborations, which could have a material adverse effect on the Issuer's business, financial condition and net income.

## **Risks relating to the financing of the Issuer**

### ***Global financial and economic uncertainty***

An uncertainty facing the Issuer is the extent to which the continuing global and European financial and economic volatility (including Brexit) will affect the Dutch, German, and/or wider European electricity market. A further economic downturn may have an adverse effect on the financial condition of the Issuer. For instance, this might be the case if the Issuer's suppliers – due to financial difficulties – can no longer comply with their obligations and as a result projects are delayed. Also, the financial and economic volatility may influence the European capital markets as a result of which it could (temporarily) become more expensive and difficult for the Issuer to attract financing. Potential investors need to make sure that they have sufficient information regarding the global and European economic situation and outlook, so that they can make their own assessment of these issues in connection with any investments in the Securities.

### ***(Re-)financing risk***

The Issuer faces substantial financing needs in the coming years to fund its onshore and offshore investment projects in the Netherlands and Germany as well as international sub-sea (extra) high-voltage cables (see also “*Business Description of the Issuer - Funding*”). If the Issuer is unable to raise such financing, it might not be able to invest as scheduled. Any limitations on the Issuer's ability to invest as scheduled, could affect the Issuer's cash flows, and affect its ability to execute its strategic plans, which could have a material adverse effect on the Issuer's business, financial condition and net income.

Additionally, current and future problems that are and may be affecting the domestic and international debt and equity markets generally may adversely affect the availability and cost of funding for the Issuer. The envisaged capital expenditures and ensuing financing needs of the Issuer will require that it seeks external financing, either in the form of public or private financing or other arrangements, which may not be available at attractive terms or may not be available at all. Any such limitations on the Issuer's envisaged capital expenditures could limit the Issuer's liquidity, its financial flexibility and/or its cash flows and affect its ability to execute its strategic plans, which could have a material adverse effect on the Issuer's business, financial condition and net income.

In order to mitigate the risk of the inability to secure timely financing, TenneT concluded a committed EUR 2,200,000,000 revolving credit facility (the “**RCF**”) with a syndicate of eleven banks. The RCF matures in July 2021. However, there can be no assurance that this amount will suffice in case capital markets close or do not have sufficient capital available for a prolonged period of time.

### ***Risk of lack of sustainable access to equity***

A part of TenneT TSO NL's investments in the Netherlands will be financed through capital contributions from the Issuer's sole shareholder, the State, during the coming years. The State has decided that it will provide the Issuer with EUR 1,190 million additional equity capital to fund TenneT TSO NL's onshore and offshore investment portfolio in the Netherlands through a series of four equity capital contributions over the period 2017-2020. The last tranche of EUR 410 million will only be granted if the State considers it necessary. There is a risk that the Issuer will be unable to raise equity in a timely fashion which could adversely affect its investment plans and strategic focus and this could have a material adverse effect on the Issuer's business, financial condition or results of operations.

### ***EEG working capital risk***

In Germany, the legal framework under the EEG promotes the generation of electricity using renewable energy sources (“**RES**”). The EEG obliges system operators like TenneT TSO Germany to prioritise renewable energy sources over conventional ones. Under the former regime effective until 31 December 2016, the remuneration for renewable energy that had to be paid by TenneT TSO Germany to the RES plant

operators was legally fixed by means of pre-determined feed-in tariffs and market premiums. With effect as of 1 January 2017 the legislator amended the EEG and adopted – with regard to offshore wind - Offshore Wind Act (*Windenergie-auf-See-Gesetz*). Under the new law the remuneration of certain renewable energy sources (including offshore wind) shall be determined by competitive auction procedures.

The purchased renewable energy is sold by TenneT TSO Germany at the energy exchange via service providers at market prices which are significantly below the remuneration under the EEG framework. The related price difference is ultimately paid by the electricity consumers in Germany by means of the so-called EEG levy (*EEG-Umlage*). The EEG levy is added to the regular electricity price of the end customers.

The EEG levy is determined on a yearly basis and includes, among others, estimates on weather conditions (*i.e.* wind and solar feed-in), production capacity and market prices. Differences between the actual net costs incurred (including, among others, financing costs) and the aggregate EEG levy received are settled in the EEG levy of the subsequent year. For TenneT TSO Germany, the EEG balancing regime reflects a pass-through item comprising fluctuations in receivables and payables without any effect on actual results and statement of income. Due to the high volumes and amounts, TenneT TSO Germany's working capital and cash flows are significantly affected by the EEG. The differences between estimated and actual volumes and prices can result in significant changes in working capital and cash flows from one year to the other, which could have a material adverse effect on the Issuer's liquidity position and thus could consequently affect its ability to fulfil its obligations under the Securities.

#### ***Interest rate risk***

The Issuer is allowed under its current policy to partly finance itself with floating rate debt. As the reference interest rate on this debt can fluctuate, the Issuer is exposed to interest rate risk. In addition, interest rates on future debt issuances as a result of the Issuer's large financing needs are yet uncertain. Increasing interest rates will result in higher interest costs and may negatively affect the profitability of the Issuer. The Issuer's policy is to have between 50% and 100% of its debt portfolio financed on a fixed-rate basis or hedged through the use of interest rate swaps. By way of example, on 31 December 2016, approximately 85% of the senior debt portfolio of the Issuer was on a fixed rate basis or hedged and has an original maturity longer than 12 months. Adverse fluctuations and increases in interest rates, to the extent that they are not hedged, could have a material adverse effect on the Issuer's financial condition and net income.

#### ***Credit rating risk***

Rating agencies have issued, and may in the future issue, credit ratings for the Issuer. There is no assurance that a rating will remain for any given period of time or that a rating will not be lowered or withdrawn by the relevant rating agency or the Issuer if, in its judgement, circumstances in the future so warrant. A decision by any rating agency to downgrade or withdraw the Issuer's current credit rating (for whatever reason) could reduce the Issuer's funding options, increase its cost of borrowings and adversely affect its net income.

### **Risks related to the Securities generally**

#### ***The Securities may not be a suitable investment for all investors***

Each potential investor in the Securities must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- (a) have sufficient knowledge and experience to make a meaningful evaluation of the Securities, the merits and risks of investing in the Securities and the information contained or incorporated by reference in this Prospectus or any applicable supplement;

- (b) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Securities and the impact such investment will have on its overall investment portfolio;
- (c) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Securities, including where the currency for principal and interest payments is different from the potential investor's currency;
- (d) understand thoroughly the terms of the Securities and be familiar with the behaviour of any relevant indices and financial markets; and
- (e) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

The Securities are complex financial instruments. Sophisticated institutional investors generally do not purchase complex financial instruments as stand-alone investments. These investors purchase complex financial instruments as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in the Securities unless it has the expertise (either alone or with a financial adviser) to evaluate how the Securities will perform under changing conditions, the resulting effects on the value of the Securities and the impact this investment will have on the potential investor's overall investment portfolio.

#### ***Exchange and modification***

Pursuant to the Conditions, the Issuer may exchange the Securities for new securities (the “**Exchanged Securities**”) or vary the terms of the Securities (the “**Varied Securities**”) without any consent of the Holders in the event of an Accounting Event, a Withholding Tax Event, an Income Tax Deduction Event or a Rating Event so that in either case (A) in the case of an Accounting Event, the aggregate nominal amount of the Exchanged Securities or Varied Securities (as the case may be) is recorded as “equity” in full in the consolidated financial statements of the Issuer pursuant to EU-IFRS, (B) in the case of a Withholding Tax Event, payments of principal and interest in respect of the Exchanged Securities or Varied Securities (as the case may be) are not subject to deduction or withholding by reason of Dutch law or published regulations, (C) in the case of an Income Tax Deduction Event, payments of interest payable by the Issuer in respect of the Exchanged Securities or Varied Securities (as the case may be) are tax-deductible to the extent permitted by Dutch law or (D) in the case of a Rating Event, the aggregate nominal amount of the Exchanged Securities or Varied Securities (as the case may be) is assigned “equity credit” (or such other nomenclature that the relevant Rating Agency may then use to describe the degree to which an investment exhibits the characteristics of an ordinary share) by the relevant Rating Agency that is equal to or greater than that which was assigned to the Securities by that Rating Agency on the Issue Date, or if such equity credit was not assigned on the Issue Date, at the date when the equity credit was assigned for the first time.

Any such exchange or variation shall be subject to the following conditions:

- (i) the Issuer giving not less than thirty (30) nor more than sixty (60) calendar days' notice to the Holders in accordance with Condition 14 (*Notices*);
- (ii) the Issuer complying with the rules of any stock exchange (or any other relevant authority) on which the Securities are for the time being admitted to trading, and (for so long as the rules of such exchange require) the publication of any appropriate supplement, listing particulars or offering circular in connection therewith, and the Exchanged Securities or Varied Securities continue to be admitted to trading on the same stock exchange as the Securities if they were admitted to trading immediately prior to the relevant exchange or variation;

- (iii) the Issuer paying any Arrears of Interest and any Additional Amounts in full prior to such exchange or variation;
- (iv) the Exchanged Securities or Varied Securities shall maintain the same ranking in liquidation, the same interest rate and interest payment dates, the same First Reset Date and early redemption rights (provided that the relevant exchange or variation may not itself trigger any early redemption right), the same rights to accrued interest and any other amounts payable under the Securities which, in each case, have accrued to Holders and have not been paid, the same rights to principal and interest, and, if publicly rated by Moody's and/or S&P immediately prior to such exchange or variation, at least the same credit rating immediately after such exchange or variation by both Moody's and S&P if the Securities are publicly rated by both such rating agencies, or by the relevant such Rating Agency if the Securities are only rated by one such Rating Agency, as compared with the relevant rating(s) immediately prior to such exchange or variation (as determined by the Issuer using reasonable measures available to it including discussions with Moody's and/or S&P to the extent practicable) and shall not contain terms providing for the mandatory deferral of interest and do not contain terms providing for loss absorption through principal write-down or conversion to shares;
- (v) the terms of the exchange or variation not being prejudicial to the interests of the Holders, including compliance with (iv) above, as certified to the benefit of the Holders by two directors of the Issuer, having consulted with an independent investment bank of international standing (for the avoidance of doubt the Fiscal Agent shall accept the certificates of the Issuer as sufficient evidence of the occurrence of a Withholding Tax Event, an Income Tax Deduction Event, an Accounting Event or a Rating Event and that such exchange or variation to the terms of the Securities are not prejudicial to the interest of the Holders); and
- (vi) the issue of legal opinions addressed to the Fiscal Agent for the benefit of the Holders from one or more international law firms of good reputation confirming (x) that the Issuer has capacity to assume all rights and obligations under the Exchanged Securities or Varied Securities and has obtained all necessary corporate or other relevant authorisations to assume all such rights and obligations and (y) the legality, validity and enforceability of the Exchanged Securities or Varied Securities.

In addition, The Conditions contain provisions for calling meetings of Securityholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Securityholders including Securityholders who did not attend and vote at the relevant meeting and Securityholders who voted in a manner contrary to the majority.

#### ***Change of law***

The Conditions are based on Dutch law in effect as at the date of this Prospectus. No assurance can be given as to the impact of any possible judicial decision or change to Dutch law or administrative practice after the date of this Prospectus.

***The Securities could be redeemed at any time upon a Withholding Tax Event, an Income Tax Deduction Event, an Accounting Event, a Rating Event, a Change of Control or following the exercise by the Issuer of the Clean-up Call and on any Business Day from and including 1 March 2024 to and including the First Reset Date or any Coupon Payment Date thereafter***

In the event that the Issuer would be required to pay Additional Amounts upon the next due date for a payment in respect of the Securities due to any withholding or deduction for or on account of any present or future taxes by or on behalf of The Netherlands (a Withholding Tax Event), the Securities may be redeemed, in whole but not in part, at the option of the Issuer at any time upon the giving of notice in accordance with the Conditions at an amount equal to (i) their principal amount, or (ii), if a Withholding Tax Event coincides



with an Income Tax Deduction Event prior to the First Reset Date, 101% of their principal amount, in each case together with accrued interest thereon, including any Arrears of Interest and any Additional Amounts up to (but excluding) the redemption date.

In the event that the interest payments under the Securities were but are no longer or will no longer be tax-deductible by the Issuer for Dutch corporate income tax purposes (an Income Tax Deduction Event), the Securities may be redeemed, in whole but not in part, at the option of the Issuer at any time upon the giving of notice in accordance with the Conditions at an amount equal to (i) 101 per cent. of their principal amount if such redemption occurs prior to First Reset Date or (ii) their principal amount if such redemption occurs on or after the First Reset Date, in each case together with interest accrued thereon, including any Arrears of Interest and any Additional Amounts, up to (but excluding) the redemption date.

In the event that (1) the Issuer certifies that it has obtained an opinion from a recognised independent auditor to the effect stating that as a result of a change in accounting principles or methodology (or the application thereof) becoming effective on or after the Issue Date, the Securities may not or may no longer be recorded as “equity” in full in any of the consolidated financial statements of the Issuer pursuant to EU-IFRS or any other accounting standards that may replace EU-IFRS for the purposes of preparing the annual or semi-annual consolidated financial statements of the Issuer (an Accounting Event) or (2) a Rating Agency which has assigned solicited ratings to the Issuer either directly or via publication by such Rating Agency has confirmed that an amendment, clarification or change in the equity credit criteria of any such Rating Agency (or the interpretation thereof) has occurred after the Issue Date, which amendment, clarification or change results in the Securities being assigned a level of equity credit that is lower than the level of equity credit assigned to the Securities by such Rating Agency on the Issue Date, or if such equity credit was not assigned on the Issue Date, at the date when the equity credit was assigned for the first time (a Rating Event), the Securities may be redeemed, in whole but not in part, at the option of the Issuer at any time upon the giving of Notice in accordance with the Conditions at an amount equal to (i) 101 per cent. of their principal amount where such redemption occurs prior to the First Reset Date or (ii) at their principal amount, where such redemption occurs on or after the First Reset Date, in each case (together with accrued interest thereon, including any and all Arrears of Interest and any Additional Amounts up to (but excluding) the redemption date.

Upon the occurrence of a Change of Control, the Issuer may redeem the Securities in whole, but not in part, upon the giving of Notice in accordance with the Conditions, at their principal amount, together with interest accrued thereon, including any Arrears of Interest and any Additional Amounts, up to but excluding the redemption date. If at the time of the occurrence of a Change of Control any Puttable Senior Securities are outstanding, the redemption date of the Securities will be the later of (x) the first Coupon Payment Date following the Change of Control on which notice may be given in accordance with the Conditions and (y) the first Business Day (which does not need to be a Coupon Payment Date) following the last day on which such Puttable Senior Securities may become due for redemption in accordance with their terms due to the exercise of the investor put rights which the holders of such Puttable Senior Securities may have in respect of the same Change of Control.

The Securities will be redeemable at the option of the Issuer, in whole but not in part, at any time following the purchase by or on behalf of the Issuer or a Subsidiary of an aggregate principal amount of the Securities equal to or in excess of 80 per cent. of the aggregate principal amount of the Securities issued (x) on the Issue Date and (y) if any, issued pursuant to Condition 15 (*Further Issues*) (the “**Clean-up Call**”) upon the giving of Notice in accordance with the Conditions at their principal amount, together with accrued and unpaid interest to the date of redemption and all Arrears of Interest and Additional Amounts. Finally, the Securities may be redeemed, in whole but not in part, at the option of the Issuer upon the giving of notice in accordance with the Conditions on any Business Day from and including 1 March 2024 to and including the First Reset Date or any Coupon Payment Date thereafter at their principal amount together with any interest accrued

thereon, including any Arrears of Interest and any Additional Amounts, up to (but excluding) the redemption date. An optional redemption feature is likely to limit the market value of the Securities. During any period when the Issuer may elect to redeem the Securities, the market value of the Securities generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

An investor may not be able to reinvest the proceeds of the redemption of the Securities in a comparable security at a rate of return similar to that of the Securities. Potential investors should consider reinvestment risk in light of other investments available at that time.

***Because the Global Securities are held by or on behalf of Euroclear and Clearstream, Luxembourg, investors will have to rely on their procedures for transfer, payment and communication with the Issuer***

The Securities will be represented by a temporary global bearer security which is exchangeable for a permanent global bearer security except in certain limited circumstances described in such global bearer securities. These global bearer securities will be deposited with a common depository for Euroclear and Clearstream, Luxembourg. Definitive bearer securities in respect of holdings of the Securities (“**Definitive Securities**”) will only be available in certain limited circumstances. Euroclear and Clearstream, Luxembourg will maintain records of the beneficial interests in the bearer global securities. While the Securities are represented by a global bearer security, investors will be able to trade their beneficial interests only through Euroclear and Clearstream, Luxembourg.

The Issuer will discharge its payment obligations under the Securities by making payments to the common depository for Euroclear and Clearstream, Luxembourg for distribution to their account holders. A holder of a beneficial interest in a global bearer security must rely on the procedures of Euroclear and Clearstream, Luxembourg to receive payments under the Securities. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in any global bearer security.

Holders of beneficial interests in a global bearer security will not have a direct right to vote in respect of the Securities. Instead, such holders will be permitted to act only to the extent that they are enabled by Euroclear and Clearstream, Luxembourg to appoint appropriate proxies.

***Integral multiples of less than €100,000***

As the Securities have a denomination consisting of the minimum denomination plus a higher integral multiple of another smaller amount, it is possible that the Securities may be traded in amounts in excess of €100,000 (or its equivalent) that are not integral multiples of €100,000 (or its equivalent). In such case a Holder who, as a result of trading such amounts, holds a principal amount of less than the minimum denomination may not receive a Definitive Security in respect of such holding (should Definitive Securities be printed) and would need to purchase a principal amount of Securities such that its holding amounts to the minimum denomination.

***The Issuer’s obligations under the Securities are unsecured and subordinated***

The Issuer’s obligations under the Securities will be unsecured and subordinated and will rank junior to the claims of all senior and other unsubordinated and other subordinated creditors of the Issuer, except for creditors of Parity Securities and any loans and securities expressed to rank *pari passu* with the Securities, see “Terms and Conditions of the Securities — Status, Subordination” and “Terms and Conditions of the Securities — Winding-up”.

The Securities will be deeply subordinated obligations and the most junior instrument in the capital of the Issuer, other than ordinary shares and preference shares, if any. The Issuer may be able to incur significant

additional secured or unsecured unsubordinated indebtedness and/or prior-ranking subordinated indebtedness. If the Issuer becomes insolvent or is liquidated, or if payment under any secured or unsecured unsubordinated and/or prior-ranking subordinated debt obligations is accelerated, the Issuer's secured or unsecured unsubordinated or, as the case may be, prior-ranking subordinated lenders would be entitled to exercise the remedies available to a secured or unsecured unsubordinated and/or prior-ranking subordinated lender before the Holders. As a result, the Securities are subordinated to any secured or unsecured unsubordinated indebtedness and/or prior-ranking subordinated indebtedness that the Issuer may incur in the future, and the holders of the Securities may recover rateably less than the lenders of the Issuer's secured or unsecured unsubordinated debt and/or prior-ranking subordinated debt in the event of the Issuer's bankruptcy or liquidation.

Unsubordinated liabilities of the Issuer may also arise from events that are not reflected on the balance sheet of the Issuer, including, without limitation, insurance or reinsurance contracts, derivative contracts, the issuance of guarantees or the incurrence of other contingent liabilities on an unsubordinated basis. Claims made under such guarantees or such other contingent liabilities will become unsubordinated liabilities of the Issuer that in a winding-up or insolvency proceeding of the Issuer will need to be paid in full before the obligations under the Securities may be satisfied.

Although subordinated debt securities may pay a higher rate of interest than comparable debt securities which are not subordinated, there is a real risk that an investor in subordinated securities such as the Securities will lose all or some of his investment should the Issuer become insolvent.

***No limitation on issuing senior or pari passu securities or incurring senior or pari passu liabilities***

There is no restriction in the documentation entered into in connection with the issue of the Securities by the Issuer on the amount of securities or other liabilities which the Issuer may issue or incur and which rank senior to, or *pari passu* with, the Securities. The issue of any such securities or the incurrence of any such other liabilities may reduce the amount (if any) recoverable by Holders and Couponholders on a Winding-up of the Issuer and/or may increase the likelihood of a deferral of Payments under the Securities.

***The Securities may be affected by the Issuer's business decisions and, in making such decisions, interests of the Issuer may not be aligned with those of the holders of the Securities***

The Issuer will have no obligation to consider the interests of the Holders of the Securities in connection with the Issuer's strategic decisions, including in respect of its capital management. Holders of the Securities will not have any claim against the Issuer or any other member of the Group relating to decisions that affect the business and operations of the Group, including its capital position. Such decisions could cause Holders to lose all or part of the value of their investment in the Securities. The Holders have no voting rights to influence such business decisions.

***Restricted remedy for non-payment when due***

In accordance with the Conditions, the sole remedy against the Issuer available to any Holder for recovery of amounts which have become due and payable in respect of the Securities will be the institution of proceedings for the Winding-up of the Issuer in the Netherlands (but not elsewhere) and/or proving in such Winding-up, as it may think fit to enforce any term or condition binding on the Issuer under the Agency Agreement or the Securities. However, such proceedings cannot oblige the Issuer to pay any sum or sums, in cash or otherwise, sooner than the same would otherwise have been payable by it under the Conditions. The Securities cannot cross default based on non-payment on other securities, except where such non-payment on other securities itself results in the Winding-up of the Issuer. The Holders have limited ability to influence the outcome of an insolvency or liquidation or restructuring outside an insolvency or liquidation.

***The Issuer has the right to defer Payments on the Securities***

The Issuer may at its sole discretion defer any Payment on the Securities at any time and for any reason as provided in Condition 4(a). Any amounts deferred in accordance with Condition 4(a) (including interest accrued thereon) shall constitute Arrears of Interest.

Any Arrears of Interest may be paid in whole or in part at any time, and in any event, will automatically remain due and become payable under certain conditions as provided for in Condition 4(b).

Any deferral of Payments will likely have an adverse effect on the market price of the Securities. In addition, as a result of the deferral provision of the Securities, the market price of the Securities may be more volatile than the market prices of other debt securities on which original issue discount or interest accrual is not subject to such deferrals, and may be more sensitive generally to adverse changes in the Issuer's financial condition.

***The Securities are perpetual securities***

The Securities are perpetual securities in respect of which there is no fixed redemption date by which the Issuer would be under the obligation to redeem the Securities. Accordingly there is uncertainty as to when (if ever) an investor in the Securities will receive repayment of the principal amount of the Securities.

***The Coupon Rate on the Securities will be reset on each Reset Date, which may affect the market value of the Securities***

The Securities will initially earn interest at a fixed rate of interest to, but excluding, the First Reset Date. From, and including, such date, however, and every Reset Date thereafter, the Coupon Rate will be reset to the Reset Coupon Rate (as described in Condition 5 of the Conditions). This Reset Coupon Rate may be less than the initial Coupon Rate and/or the Coupon Rate that applies immediately prior to such Reset Date, which could affect the amount of any interest payments under the Securities and consequently the market value of the Securities.

**RISKS RELATED TO THE MARKET GENERALLY**

Set out below is a brief description of certain market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk.

***The secondary market generally***

The Securities are new securities which may not be widely distributed and for which there is currently no active trading market. If the Securities are traded after their initial issuance, they may trade at a discount to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions and the financial condition of the Issuer. Although application has been made for the Securities to be admitted to listing and trading on Euronext Amsterdam, there is no assurance that such application will be accepted or that an active trading market will develop. Accordingly, there is no assurance as to the development or liquidity of any trading market for the Securities. Lack of liquidity may have an adverse effect on the market value of the Securities.

***Exchange rate risks and exchange controls***

The Issuer will pay principal and interest on the Securities in Euro. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency unit (the "Investor's Currency") other than the Euro. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Euro or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Euro would decrease (1) the Investor's

Currency equivalent yield on the Securities, (2) the Investor's Currency equivalent value of the principal payable on the Securities and (3) the Investor's Currency equivalent market value of the Securities.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

#### ***Interest rate risks***

Investment in the Securities involves the risk that subsequent changes in market interest rates may adversely affect the value of the Securities.

#### ***Credit ratings may not reflect all risks***

The credit ratings assigned to the Securities may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Securities. A credit rating is not a recommendation to buy, sell or hold Securities and may be revised or withdrawn by the rating agency at any time.

#### ***Legal investment considerations may restrict certain investments***

The investment activities of certain investors are subject to laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) the Securities are legal investments for it, (2) the Securities can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of any of the Securities. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Securities under any applicable risk-based capital or similar rules.

#### ***In certain circumstances, the Issuer and the Holders may be subject to US withholding tax under FATCA***

Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986 ("**FATCA**") impose a new reporting regime and potentially a 30% withholding tax with respect to certain payments to (i) any non-U.S. financial institution (a "foreign financial institution", or "**FFI**" (as defined by FATCA)) that does not become a "**Participating FFI**" by entering into an agreement with the U.S. Internal Revenue Service ("**IRS**") to provide the IRS with certain information in respect of its account holders and investors or is not otherwise exempt from or in deemed compliance with FATCA and (ii) any investor (unless otherwise exempt from FATCA) that does not provide information sufficient to determine whether the investor is a U.S. person or should otherwise be treated as holding a "United States account" of the Issuer (a "**Recalcitrant Holder**").

The new withholding regime is now in effect for payments from sources within the United States and will apply to foreign passthru payments (a term not yet defined) no earlier than 1 January 2019.

The United States and a number of other jurisdictions have announced their intention to negotiate intergovernmental agreements to facilitate the implementation of FATCA (each, an "**IGA**"). Pursuant to FATCA and the "Model 1" and "Model 2" IGAs released by the United States, an FFI in an IGA signatory country could be treated as a "Reporting FI" not subject to withholding under FATCA on any payments it receives. Further, an FFI in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA (or any law implementing an IGA) (any such withholding being "**FATCA Withholding**") from payments it makes. Under each Model IGA, a Reporting FI would still be required to report certain information in respect of its account holders and investors to its home government or to the IRS. The United States and the Netherlands have entered into an agreement (the "**US-Netherlands IGA**") based largely on the Model 1 IGA.

If the Issuer is treated as a Reporting FI pursuant to the US-Netherlands IGA it does not anticipate that it will be obliged to deduct any FATCA Withholding on payments it makes. There can be no assurance, however, that the Issuer will be treated as a Reporting FI, or that it would in the future not be required to deduct FATCA Withholding from payments it makes. The Issuer and financial institutions through which payments on the Securities are made may be required to withhold FATCA Withholding if (i) any FFI through or to which payment on such Securities is made is not a Participating FFI, a Reporting FI, or otherwise exempt from or in deemed compliance with FATCA or (ii) an investor is a Recalcitrant Holder.

Whilst the Securities are in global form and held within the ICSDs, it is expected that FATCA will not affect the amount of any payments made under, or in respect of, the Securities by the Issuer, any paying agent and the common depositary, given that each of the entities in the payment chain between the Issuer and the participants in the ICSDs is a major financial institution whose business is dependent on compliance with FATCA and that any alternative approach introduced under an IGA will be unlikely to affect the Securities. The documentation expressly contemplates the possibility that the Securities may go into definitive form and therefore that they may be taken out of the ICSDs. If this were to happen, then a non-FATCA compliant holder could be subject to FATCA Withholding. However, Definitive Securities will only be printed in remote circumstances.

FATCA is particularly complex and its application is uncertain at this time. The above description is based in part on regulations, official guidance and model IGAs, all of which are subject to change or may be implemented in a materially different form. Prospective investors should consult their tax advisers on how these rules may apply to the Issuer and to payments they may receive in connection with the Securities.

**EACH TAXPAYER IS HEREBY NOTIFIED THAT: (A) ANY TAX DISCUSSION HEREIN IS NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED BY THE TAXPAYER FOR THE PURPOSE OF AVOIDING U.S. FEDERAL INCOME TAX PENALTIES THAT MAY BE IMPOSED ON THE TAXPAYER; (B) ANY SUCH TAX DISCUSSION WAS WRITTEN TO SUPPORT THE PROMOTION OR MARKETING OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN; AND (C) THE TAXPAYER SHOULD SEEK ADVICE BASED ON THE TAXPAYER'S PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISER.**

#### ***The proposed financial transactions tax (FTT)***

On 14 February 2013, the European Commission published a proposal (the “**Commission’s Proposal**”) for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the “**participating Member States**”). However, Estonia has since stated that it will not participate.

The Commission’s Proposal has very broad scope and could, if introduced, apply to certain dealings in the Securities (including secondary market transactions) in certain circumstances. The issuance and subscription of Securities should, however, be exempt.

Under the Commission’s Proposal the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the Securities where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, “established” in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

However, the FTT proposal remains subject to negotiation between participating Member States. It may therefore be altered prior to any implementations, the timing of which remains unclear. Additional EU Member States may decide to participate.

Prospective holders of the Securities are advised to seek their own professional advice in relation to the FTT.

## Overview

*The following overview is qualified in its entirety by the remainder of this Prospectus.*

<b>Issuer:</b>	TenneT Holding B.V.
<b>The Securities:</b>	€1,000,000,000 Fixed-to-Reset Rate NC7.1 Perpetual Capital Securities
<b>Fiscal Agent:</b>	The Bank of New York Mellon, London Branch
<b>Issue Price:</b>	99.973 per cent.
<b>Form of Securities, Initial Delivery of Securities and Clearing Systems:</b>	The Securities will be in bearer form and will initially be represented by a Temporary Global Security, without coupons, which will be deposited with a common depository on behalf of Euroclear and Clearstream, Luxembourg on or about the Issue Date. The Temporary Global Security will be exchangeable for interests in a Permanent Global Security, without coupons, on or after a date which is expected to be 22 May 2017, upon certification as to non-U.S. beneficial ownership. The Permanent Global Security will be exchangeable for Definitive Securities in bearer form in the denominations of (i) €100,000 and integral multiples of €1,000 in excess thereof up to, and including, €199,000, in the limited circumstances set out in it. No Definitive Securities will be issued with a denomination above €199,000. Also see “ <i>Summary of Provisions relating to the Securities while in Global Form</i> ”.
<b>No fixed maturity:</b>	The Securities are perpetual securities in respect of which there is no fixed redemption date.
<b>Denominations:</b>	€100,000 and integral multiples of €1,000 in excess thereof up to and including €199,000. Also see “Form of Securities, Initial Delivery of Securities and Clearing Systems” above.
<b>Status of the Securities:</b>	The Securities will constitute subordinated obligations of the Issuer as described in “Terms and Conditions of the Securities — Status, Subordination”. Also see “Terms and Conditions of the Securities — Winding-up”.
<b>Interest:</b>	The Securities will bear interest on their principal amount from (and including) the Issue Date to (but excluding) 1 June 2024 (the “ <b>First Reset Date</b> ”) at a rate of 2.995 per cent. per annum, payable annually in arrear on 1 June in each year, except that the first payment of interest, to be made on 1 June 2017, will be in respect of the period from (and including) the Issue Date to (but excluding) 1 June 2017 and will amount to €4.10 per €1,000 in principal amount of the Securities. Thereafter, unless previously redeemed, the Securities will bear interest from (and including) the First Reset Date to (but excluding) 1 June 2029 (the “ <b>First Step-up Date</b> ”) at a rate per annum which shall be



2.533 per cent. above the euro 5 year Swap Rate (as defined in the Terms and Conditions of the Securities (the “**Conditions**”)) for the relevant Reset Period (as defined in the Conditions), payable annually in arrear on 1 June in each year. From (and including) the First Step-up Date to (but excluding) 1 June 2044 (the “**Second Step-up Date**”) the Securities will bear interest at a rate per annum which shall be 2.783 per cent. above the euro 5 year Swap Rate for the relevant Reset Period payable annually in arrear on 1 June in each year. From (and including) the Second Step-up Date, the Securities will bear interest at a rate per annum which shall be 3.533 per cent. above the euro 5 year Swap Rate for the relevant Reset Period payable annually in arrear on 1 June in each year.

If the Issuer does not elect to redeem the Securities in accordance with Condition 6, following the occurrence of a Change of Control (as defined in the Conditions), the then prevailing interest rate (and each subsequent interest rate otherwise determined in accordance with the Conditions) shall be increased by 5 per cent. per annum with effect from (and including) the date on which the Change of Control occurred, see “Terms and Conditions of the Securities — Coupon Payments — Step-up after Change of Control”.

The Securities will cease to bear interest from the due date for redemption unless, upon due presentation, payment of principal is improperly withheld or refused. In such event, it shall continue to bear interest at the prevailing Coupon Rate (as defined in the Conditions) in accordance with the Conditions.

**Deferral of Interest and payment of Arrears of Interest:**

The Issuer may, at its discretion, elect to defer any interest, in whole but not in part, except for interest payable upon redemption of the Securities as more particularly described in “Terms and Conditions of the Securities — Deferral of Interest”. Any amounts so deferred, together with further interest accrued thereon at the interest rate per annum prevailing from time to time (which interest shall compound on each Coupon Payment Date (as defined in the Conditions)) shall constitute Arrears of Interest (as defined in the Conditions). The Issuer may pay outstanding Arrears of Interest, in whole or in part, at any time in accordance with the Conditions. Notwithstanding this, the Issuer shall pay any outstanding Arrears of Interest, in whole but not in part, on the first to occur of the following dates (i) the 10th Business Day following the date on which a Mandatory Payment Event occurs; (ii) any Coupon Payment Date in respect of which the Issuer does not elect to defer the interest accrued in respect of the relevant interest period; and (iii) the date on which the Securities are redeemed or the Issuer becomes subject to a

Winding-up, all as more particularly described in “Terms and Conditions of the Securities — Deferral of Interest”.

**Redemption:**

The Securities are perpetual securities in respect of which there is no fixed redemption date by which the Issuer would be under the obligation to redeem the Securities and shall be redeemable (at the option of the Issuer) in whole but not in part on any Business Day from and including 1 March 2024 to and including the First Reset Date or any Coupon Payment Date thereafter at their principal amount together with any interest accrued thereon, including any Arrears of Interest and any Additional Amounts, up to (but excluding) the redemption date, see “Terms and Conditions of the Securities — Redemption, Purchase and Modification”.

**Special Event Redemption:**

The Securities may be redeemed at the option of the Issuer, including, without limitation, for tax, accounting and rating reasons, following a change of control and following the exercise of the Clean-up Call, see “Terms and Conditions of the Securities — Redemption, Purchase and Modification” for more detail on the terms applicable to such redemption including the basis for calculating the redemption amounts payable.

**Withholding Tax and Additional Amounts:**

All payments of principal and interest in respect of the Securities will be made free and clear of withholding taxes of The Netherlands subject to customary exceptions, all as described in “Terms and Conditions of the Securities — Taxation”.

**Governing Law:**

Dutch law.

**Ratings:**

The Securities will be rated on issue by Standard & Poor’s and Moody’s. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency. As at the date of this Prospectus, the Issuer has a long term senior unsecured debt rating of “A-” by Standard & Poor’s and “A3” by Moody’s. Each of Standard & Poor’s and Moody’s is established in the European Union and is registered under the CRA Regulation.

**Listing and Admission to Trading:**

Application has been made to list the Securities on Euronext Amsterdam.

**Selling Restrictions:**

The Netherlands, The United States, the United Kingdom, Japan and Switzerland, see “Subscription and Sale”.

The Issuer is Category 1 for the purposes of Regulation S under the U.S. Securities Act of 1933, as amended.

**Risk Factors:**

There are certain factors that may affect the Issuer's ability to fulfil its obligations under the Securities. These include various risks relating to the Issuer's business. In addition, there are

certain factors which are material for the purpose of assessing the market risks associated with the Securities. These include the fact that the Securities may not be a suitable investment for all investors and certain market risks, see “Risk Factors”.

**Use of Proceeds:**

The net proceeds from the issue of the Securities, expected to amount to approximately €996,230,000, will be allocated to a sub portfolio (the “**Green Project Portfolio**”) with the special purpose to finance, refinance and/or invest in Eligible Green Projects (as defined below) meeting the Eligibility Criteria (as defined below).

“**Eligible Green Projects**” means projects relating to the transmission of renewable electricity from offshore wind power plants into the onshore electricity grid using direct current technology or alternating current technology.

“**Eligibility Criteria**” means the criteria prepared by the Issuer. A second party consultant (e.g. oekom research AG) will review the selected Eligible Green Projects and issue a second party opinion based on the Eligibility Criteria. The second party-opinion will be made available on the Issuer's website (www.tennet.eu).

Pending allocation to Eligible Green Projects of the net proceeds for investment in Eligible Green Projects, the Issuer will hold such net proceeds, at its discretion, in cash or other liquid marketable instruments in its Green Project Portfolio. The balance of the Green Project Portfolio, until such amount is used in full, will be reduced by the amounts invested in Eligible Green Projects meeting the Eligibility Criteria. The Issuer will establish systems to monitor and account for the net proceeds for investment in Eligible Green Projects in order to ensure the allocation of such net proceeds to the Green Project Portfolio for the investments in Eligible Green Projects meeting the Eligibility Criteria.

The Issuer is expected to issue a report on (i) the impact of the Eligible Green Projects on the environment, as well as (ii) whether the net proceeds issued under the green Securities are used to finance Eligible Green Projects. This report will be issued once a year until all Securities are repaid in full. The report will be reviewed by a second party consultant or with limited assurance by an independent auditor. In addition, the Issuer is expected to provide regular information through its website (www.tennet.eu) and/or newsletters to investors on the environmental outcomes of the Eligible Green Projects.

**ISIN:**

XS1591694481

**Common Code:**

159169448

## **Documents Incorporated by Reference**

The following parts of the documents listed below, which have previously been published and filed with the AFM, shall be incorporated in and form part of this Prospectus and are correct as of their date:

1. pages 41-47 (inclusive) and pages 75-146 (inclusive) of the TenneT Integrated Annual Report 2015 (English version);
2. pages 35-39 (inclusive) and pages 73-144 (inclusive) of the TenneT Integrated Annual Report 2016 (English version);

Any non-incorporated parts of a document referred to herein are either deemed not relevant for an investor or are otherwise covered elsewhere in this Prospectus.

Copies of documents incorporated by reference in this Prospectus may be obtained (without charge) from the registered office of the Issuer and [www.tennet.eu](http://www.tennet.eu).

## Terms and Conditions of the Securities

*The following are the terms and conditions of the Securities substantially in the form in which they will be endorsed on the Global Security. The terms and conditions applicable to any Security in global form will differ from those terms and conditions which would apply to the Security were it in definitive form to the extent described under “Summary of Provisions Relating to the Securities while in Global Form” below.*

The issue of the Securities was authorised pursuant to resolutions of the Executive Board of the Issuer passed on 23 December 2016. A fiscal agency agreement dated 12 April 2017 (the “**Agency Agreement**”) has been entered into in relation to the Securities between the Issuer, The Bank of New York Mellon, London Branch as fiscal agent, calculation agent and paying agent. The fiscal agent, calculation agent and the paying agents for the time being are referred to below respectively as the “**Fiscal Agent**”, the “**Calculation Agent**” and the “**Paying Agents**” (which expression shall include the Fiscal Agent). The Agency Agreement includes the form of the Securities and the coupons relating to them (the “**Coupons**”). Copies of the Agency Agreement are available for inspection during normal business hours at the specified offices of the Paying Agents. The holders of the Securities (the “**Securityholders**”) and the holders of the Coupons (whether or not attached to the relevant Securities) (the “**Couponholders**”) are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Agency Agreement applicable to them. References to “**Holders**” shall include both Securityholders and Couponholders.

### 1. Form, Denomination and Title

#### (a) Form and Denomination

The Securities are serially numbered and in bearer form in the denominations of €100,000 and integral multiples of €1,000 in excess thereof up to (and including) €199,000, each with Coupons attached on issue. No definitive Securities will be issued with a denomination above €199,000. Securities of one denomination may not be exchanged for Securities of any other denomination.

#### (b) Transfer and Title

Title to the Securities and Coupons passes by delivery. The holder of any Security or Coupon will (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest in it, any writing on it, or its theft or loss) and no person will be liable for so treating the holder.

### 2. Status, Subordination

The Securities, together with interest accrued thereon, including any Additional Amounts and Arrears of Interest, constitute direct, unsecured and subordinated obligations of the Issuer (ranking *pari passu* without any preference among themselves), which in the event of a Winding-up rank:

(i) junior to the claims of all senior and other subordinated creditors of the Issuer, except for the loans and securities referred to in sub-clause (ii) hereunder;

(ii) *pari passu* among themselves, with any Parity Securities and any loans and securities expressed to rank *pari passu* with the Securities; and

(iii) senior to the Issuer’s ordinary and preferred share capital,

in each case, except as otherwise required by mandatory provisions of law.

Subject to applicable law, no Holder may exercise or claim any right of set-off in respect of any amount owed to it by the Issuer arising under or in connection with the Securities or the Coupons and each Holder shall, by virtue of being the Holder, be deemed to have waived all such rights of set-off. This Condition 2 is an irrevocable stipulation (*derdenbeding*) for the benefit of the creditors referred to in (i) above and each such creditor may rely on and enforce this Condition 2 under Section 6:253 of the Dutch Civil Code.

### 3. Winding-up

In the event of a Winding-up, the Securities will become immediately due and payable at their outstanding principal amount, together with interest accrued thereon, including any Arrears of Interest and any Additional Amounts, up to but excluding the redemption date, provided that such amount shall only be paid to the Holders to the extent that all senior and other subordinated creditors of the Issuer referred to in Condition 2 under (i) shall have been satisfied in full.

### 4. Deferral of Interest

The Issuer must make each Coupon Payment on the relevant Coupon Payment Date subject to and in accordance with these Terms and Conditions.

#### (a) *Deferral of Payments*

- (i) The Issuer may in respect of any Payment which would, in the absence of deferral in accordance with this Condition 4(a)(i), be payable (except for interest payable upon redemption of the Securities), defer such Payment, in whole but not in part, at its sole discretion at any time and for any reason, by giving notice (a “**Deferral Notice**”) to the Holders, the Fiscal Agent and the Calculation Agent not less than 7 Business Days prior to the relevant due date.
- (ii) If any Payment is deferred pursuant to this Condition 4(a) then such deferred Payment shall bear interest, at the Coupon Rate prevailing from time to time (which interest shall compound on each Coupon Payment Date), from (and including) the date on which (but for such deferral) the Deferred Coupon Payment would otherwise have been due to be made to (but excluding) the relevant Deferred Coupon Satisfaction Date.
- (iii) Any amounts deferred in accordance with this Condition 4(a) (including interest accrued thereon pursuant to Condition 4(a)(ii)) shall constitute Arrears of Interest. Non-payment of Arrears of Interest shall not constitute a default by the Issuer under the Securities or for any other purpose, unless such payment is required in accordance with Condition 4(b).

#### (b) *Payment of Arrears of Interest*

The Issuer may give a Deferral Notice under Condition 4(a) with regard to a Coupon Payment Date in its sole discretion and for any reason. The Issuer may pay outstanding Arrears of Interest, in whole or in part, at any time (such date in such respect then a Deferred Coupon Satisfaction Date) by giving notice to the Holders, the Fiscal Agent and the Calculation Agent not less than 7 Business Days prior to the relevant Deferred Coupon Satisfaction Date.

The Issuer shall pay any outstanding Arrears of Interest, in whole but not in part, on the first to occur of the following dates:

- (i) the 10th Business Day following the date on which a Mandatory Payment Event occurs;

- (ii) any Coupon Payment Date in respect of which the Issuer does not elect to defer the interest accrued in respect of the relevant interest period; and
- (iii) the date on which the Securities are redeemed or the Issuer becomes subject to a Winding-up (such date in such respect then a Deferred Coupon Satisfaction Date).

## 5. Coupon Payments

### (a) *Coupon Payment Dates*

The Securities bear interest from (and including) the Issue Date. Such interest will (subject to Condition 4) be payable annually in arrears on each Coupon Payment Date. Each Security will cease to bear interest from the due date for redemption unless, upon due presentation, payment of principal is improperly withheld or refused. In such event, it shall continue to bear interest at the prevailing Coupon Rate in accordance with this Condition.

### (b) *Coupon Rate*

- (i) The Coupon Rate payable from time to time in respect of the Securities in respect of the First Fixed Rate Period will be 2.995 per cent. per annum (the “**First Fixed Coupon Rate**”). The Coupon Amount in respect of such Coupon Period will amount to €29,95 per Calculation Amount, except for the first Coupon Period from (and including) the Issue Date to (but excluding) 1 June 2017 (short first coupon) which will amount to € 4.10 per Calculation Amount.
- (ii) The Coupon Rate payable in respect of the Securities for each Coupon Period falling in a Reset Period (each a “**Reset Coupon Rate**”) shall, except as provided below, be the arithmetic mean of the bid and offered rates for the annual fixed leg (calculated on a 30/360 day count basis) of a fixed-for-floating Euro interest rate swap transaction which (a) has a term of 5 years and commencing on the relevant Reset Date, (b) is in an amount that is representative of a single transaction, in the swap market two business days prior to the beginning of the relevant Reset Period, with an acknowledged dealer of good credit in the swap market, and (c) has a floating leg based on the 6-months EURIBOR rate (calculated on an Actual/360 day count basis) and which appears on Reuters screen page “ICESWAP2” (or such other page as may replace that page on that service, or such other service as may be nominated as the information vendor, for the purpose of displaying comparable rates) as an annual euro swap transactions with a maturity of 5 years which is fixed as of 11:00 a.m. (Brussels time) (the “**Reset Screen Page**”) on the second Business Day prior to the beginning of the relevant Reset Period (the “**Reset Coupon Determination Date**”), (the “**5 year Swap Rate**”) plus the Margin, all as determined by the Calculation Agent.

In the event that the 5 year Swap Rate does not appear on the Reset Screen Page on the Reset Coupon Determination Date, the 5 year Swap Rate will be the Reset Reference Bank Rate on such Reset Coupon Determination Date. “**Reset Reference Bank Rate**” means the percentage rate determined on the basis of the 5 year Swap Rate quotations provided by five leading swap dealers in the interbank market (the “**Reset Reference Banks**”) to the Calculation Agent at approximately 11:00 a.m., Brussels time, on the Reset Coupon Determination Date. If at least three quotations are provided, the Reset Reference Bank Rate will be the arithmetic mean of the quotations, eliminating the highest quotation (or, in the event of equality one of the highest) and the lowest quotation (or, in the event of equality, one of the lowest). If less than three quotations are provided, the Reset Reference Bank Rate will be equal to the last available 5 year Swap Rate on the Reset Screen Page.

Where it is necessary to compute an amount of interest in respect of any Security for a period which is less than a complete year, such interest shall be calculated on the basis of the actual number of days in the

period from (and including) the most recent Coupon Payment Date (or, if none, the Issue Date) to (but excluding) the relevant payment date divided by the actual number of days in the period from (and including) the most recent Coupon Payment Date (or, if none, the Issue Date) to (but excluding) the next (or first) scheduled Coupon Payment Date. Where it is necessary to compute an amount of interest in respect of any Security for a period of more than one year, such interest shall be the aggregate of the interest payable in respect of a full year plus the interest payable in respect of the remaining period calculated in the manner as aforesaid.

Interest in respect of any Security shall be calculated per €1,000 in principal amount of the Securities (the “**Calculation Amount**”). The amount of interest payable per Calculation Amount for any period shall be equal to the product of the relevant Coupon Rate, the Calculation Amount and the day-count fraction for the relevant period, rounding the resulting figure to the nearest cent (half a cent being rounded upwards).

(c) *Publication of Coupon Rate and Coupon Amount per Calculation Period*

The Calculation Agent will cause the Coupon Rate, the Coupon Amount and the relevant Coupon Payment Date to be notified to the Fiscal Agent and the other Paying Agents and each listing authority, stock exchange and/or quotation system (if any) by which the Securities have then been admitted to listing, trading and / or quotation as soon as practicable after such determination but in any event not later than the first day of the relevant Coupon Period. Notice thereof shall also promptly be given to the Holders. The Calculation Agent will be entitled to recalculate any amount of interest (on the basis of the foregoing provisions) without notice in the event of an extension or shortening of the relevant Coupon Period. If the Calculation Amount is less than the minimum denomination, the Calculation Agent shall not be obliged to publish each Coupon Amount but instead may publish only the Calculation Amount and the amount of interest in respect of a Security having the minimum denomination.

(d) *Notifications*

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition by the Calculation Agent will (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Fiscal Agent, the other Paying Agents and the Holders and (subject as aforesaid) no liability to any such person will attach to the Calculation Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions for such purposes.

(e) *Step-up after Change of Control*

In the event of a Change of Control, if the Issuer does not elect to redeem the Securities in accordance with Condition 6(f), the applicable Coupon Rate on the Securities shall be increased by 5 per cent. per annum with effect from (and including) the date on which the Change of Control occurred.

**6. Redemption, Purchase and Modification**

(a) *No Fixed Redemption Date*

The Securities are perpetual securities in respect of which there is no fixed redemption date and the Issuer shall (subject to the provisions of Conditions 2 and 3 and without prejudice to the provisions of Condition 10) only have the right to repay them in accordance with the following provisions of this Condition 6.

(b) *Issuer’s Call Option*

The Issuer may, by giving not less than 30 nor more than 60 days’ notice to the Holders in accordance with Condition 14 and to the Fiscal Agent, which notice shall be irrevocable and shall specify the date fixed for



redemption, elect to redeem the Securities in whole, but not in part, on any Business Day from and including 1 March 2024 to and including the First Reset Date or any Coupon Payment Date thereafter at their principal amount together with any interest accrued thereon, including any Arrears of Interest and any Additional Amounts, up to (but excluding) the redemption date.

(c) *Redemption for Taxation Reasons*

The Issuer may redeem the Securities in whole, but not in part, upon not more than 60 days' nor less than 30 days' notice to the Holders in accordance with Condition 14 and to the Fiscal Agent, which notice shall be irrevocable, at any time at their principal amount (or, if a Withholding Tax Event coincides with an Income Tax Deduction Event prior to the First Reset Date, at 101% of their principal amount), in each case together with interest accrued thereon, including any Arrears of Interest and any Additional Amounts, up to (but excluding) the redemption date provided that the Issuer certifies in its notice that it has obtained an opinion in writing from a reputable firm of lawyers of good standing or a recognised independent auditor to the effect that the Issuer would be required to pay Additional Amounts in accordance with (and as defined in) Condition 9 upon the next due date for a payment in respect of the Securities by reason of:

- (i) any actual or proposed change in or amendment to the laws, regulations or rulings of the Netherlands or any political subdivision or taxing authority thereof or therein; or
- (ii) any actual or proposed change in the official application or interpretation of such laws, regulations or rulings; or
- (iii) any action which shall have been taken by any taxing authority or any court of competent jurisdiction of the Netherlands or any political subdivision or taxing authority thereof or therein, whether or not such action was taken or brought with respect to the Issuer; or
- (iv) any actual or proposed change in the official application or interpretation of, or any actual or proposed execution of, or amendment to, any treaty or treaties affecting taxation to which the Netherlands is or is to be a party,

(a “**Withholding Tax Event**”) which change, amendment, change of application or execution becomes effective, taking of action occurs, or proposal is made, on or after the Issue Date.

The Issuer may also redeem the Securities in whole, but not in part, upon not more than 60 days' nor less than 30 days' notice to the Holders in accordance with Condition 14 and to the Fiscal Agent, which notice shall be irrevocable, at any time at an amount equal to (i) 101 per cent. of their principal amount if such redemption occurs prior to the First Reset Date or (ii) their principal amount if such redemption occurs on or after the First Reset Date, in each case together with interest accrued thereon, including any Arrears of Interest and any Additional Amounts, up to (but excluding) the redemption date, provided, in each case, that the Issuer certifies in its notice that it has obtained an opinion in writing from a reputable firm of lawyers of good standing or a recognised independent auditor to the effect that interest payments under the Securities were but are no longer or will no longer be tax-deductible by the Issuer for Dutch corporate income tax purposes by reason of:

- (i) any actual or proposed change in or amendment to the laws, regulations or rulings of the Netherlands or any political subdivision or taxing authority thereof or therein; or
- (ii) any actual or proposed change in the official application or interpretation of such laws, regulations or rulings; or

- (iii) any action which shall have been taken by any taxing authority or any court of competent jurisdiction of the Netherlands or any political subdivision or taxing authority thereof or therein, whether or not such action was taken or brought with respect to the Issuer; or
- (iv) any actual or proposed change in the official application or interpretation of, or any actual or proposed execution of, or amendment to, any treaty or treaties affecting taxation to which the Netherlands is or is to be a party,

(an “**Income Tax Deduction Event**”) which change, amendment, change of application or execution becomes effective, taking of action occurs, or proposal is made, on or after the Issue Date.

(d) *Redemption for Accounting Reasons*

The Issuer may redeem the Securities in whole, but not in part, upon not more than 60 days’ nor less than 30 days’ notice to the Holders in accordance with Condition 14 and to the Fiscal Agent, which notice shall be irrevocable, (i) at 101 per cent. of their principal amount if such redemption occurs prior to the First Reset Date or (ii) at their principal amount if such redemption occurs on or after the First Reset Date, in each case together with interest accrued thereon, including any Arrears of Interest and any Additional Amounts, up to (but excluding) the redemption date, provided, in each case, that the Issuer certifies in its notice that it has received an opinion from a recognised independent auditor stating that as a result of a change in accounting principles or methodology (or the application thereof) becoming effective on or after the Issue Date, the Securities may not or may no longer be recorded as “equity” in full in any of the consolidated financial statements of the Issuer pursuant to EU-IFRS or any other accounting standards that may replace EU-IFRS for the purposes of preparing the annual or semi-annual consolidated financial statements of the Issuer (an “**Accounting Event**”).

(e) *Redemption for Rating Reasons*

The Issuer may redeem the Securities in whole, but not in part, upon not more than 60 days’ nor less than 30 days’ notice to the Holders in accordance with Condition 14 and to the Fiscal Agent, which notice shall be irrevocable, (i) at 101 per cent. of their principal amount if such redemption occurs prior to the First Reset Date or (ii) at their principal amount if such redemption occurs on or after the First Reset Date, in each case together with interest accrued thereon, including any Arrears of Interest and any Additional Amounts, up to (but excluding) the redemption date, provided, in each case, that a Rating Agency which has assigned solicited ratings to the Issuer either directly or via publication by such Rating Agency has confirmed either directly to the Issuer in writing or indirectly via a publication that an amendment, clarification or change in the “equity credit” criteria of any such Rating Agency (or the interpretation thereof) has occurred after the Issue Date, which amendment, clarification or change, results in the Securities being assigned a level of equity credit that is lower than the level of equity credit assigned to the Securities by such Rating Agency on the Issue Date, or if such equity credit was not assigned on the Issue Date, at the date when the equity credit was assigned for the first time (a “**Rating Event**”).

(f) *Redemption for Change of Control*

Upon the occurrence of a Change of Control:

- (i) the Issuer shall promptly notify the Holders in accordance with Condition 14 and the Fiscal Agent upon becoming aware of such Change of Control; and
- (ii) the Issuer may redeem the Securities in whole, but not in part, upon not more than 60 days’ nor less than 30 days’ irrevocable notice (specifying a date for such redemption which is, subject to sub-paragraph (y) below, a Coupon Payment Date) to the Holders in accordance with Condition 14 and to the Fiscal Agent, at their principal amount, together with interest accrued thereon,

including any Arrears of Interest and any Additional Amounts, up to but excluding the redemption date.

If at the time of the occurrence of a Change of Control any Puttable Senior Securities are outstanding, the redemption date of the Securities will be the later of (x) the first Coupon Payment Date following the Change of Control on which notice may be given in accordance with paragraph (ii) above and (y) the first Business Day (which does not need to be a Coupon Payment Date) following the last day on which such Puttable Senior Securities may become due for redemption in accordance with their terms due to the exercise of the investor put rights which the holders of such Puttable Senior Securities may have in respect of the same Change of Control.

(g) *Redemption following exercise of Clean-up Call*

The Securities will be redeemable at the option of the Issuer, in whole but not in part, at any time following the purchase by or on behalf of the Issuer or a Subsidiary of an aggregate principal amount of the Securities equal to or in excess of 80 per cent. of the aggregate principal amount of the Securities issued (x) on the Issue Date and (y) if any, issued pursuant to Condition 15 (*Further Issues*) (the “**Clean-up Call**”).

Upon such redemption, the Issuer will redeem the Securities at their principal amount, together with accrued and unpaid interest to the date of redemption and all Arrears of Interest and Additional Amounts, if any, upon giving not less than 30 nor more than 60 days’ irrevocable notice to the Holders in accordance with Condition 14 (*Notices*).

(h) *Purchases*

The Issuer may (subject to Condition 2) at any time purchase Securities in any manner and at any price. Securities purchased by the Issuer may be held, reissued, resold or, at the option of the Issuer, be cancelled in accordance with Condition 6(i) below. Any Securities so purchased, while held by or on behalf of the Issuer, shall not entitle the holder to vote at any meetings of the Securityholders and shall not be deemed to be outstanding for the purposes of calculating quorums at meetings of the Securityholders or for the purposes of Condition 11(a).

(i) *Cancellation*

Any Securities cancelled may not be reissued or resold. The obligations of the Issuer in respect of any such Securities shall be discharged.

(j) *Exchange and Variation*

If at any time after the Issue Date the Issuer determines that an Income Tax Deduction Event, an Accounting Event, a Rating Event or a Withholding Tax Event has occurred, the Issuer may, as an alternative to an early redemption of the Securities, on any applicable Coupon Payment Date, without any further consent of the Holders, (i) exchange the Securities for new securities (the “**Exchanged Securities**”), or (ii) vary the terms of the Securities (the “**Varied Securities**”), so that in either case (A) in the case of an Accounting Event, the aggregate nominal amount of the Exchanged Securities or Varied Securities (as the case may be) is recorded as “equity” in full in the consolidated financial statements of the Issuer pursuant to EU-IFRS, (B) in the case of a Withholding Tax Event, payments of principal and interest in respect of the Exchanged Securities or Varied Securities (as the case may be) are not subject to deduction or withholding by reason of Dutch law or published regulations, (C) in the case of an Income Tax Deduction Event, payments of interest payable by the Issuer in respect of the Exchanged Securities or Varied Securities (as the case may be) are tax-deductible to the extent permitted by Dutch law or (D) in the case of a Rating Event, the aggregate nominal amount of the Exchanged Securities or Varied Securities (as the case may be) is assigned “equity credit” (or such other nomenclature that the relevant Rating Agency may then use to describe the degree to which an investment exhibits the characteristics of an ordinary share) by the relevant Rating Agency that is equal to or greater than that which was assigned to the Securities by that Rating Agency on the Issue

Date, or if such equity credit was not assigned on the Issue Date, at the date when the equity credit was assigned for the first time.

Any such exchange or variation shall be subject to the following conditions:

- (i) the Issuer giving not less than thirty (30) nor more than sixty (60) calendar days' notice to the Holders in accordance with Condition 14 (*Notices*);
- (ii) the Issuer complying with the rules of any stock exchange (or any other relevant authority) on which the Securities are for the time being admitted to trading, and (for so long as the rules of such exchange require) the publication of any appropriate supplement, listing particulars or offering circular in connection therewith, and the Exchanged Securities or Varied Securities continue to be admitted to trading on the same stock exchange as the Securities if they were admitted to trading immediately prior to the relevant exchange or variation;
- (iii) the Issuer paying any Arrears of Interest and any Additional Amounts in full prior to such exchange or variation;
- (iv) the Exchanged Securities or Varied Securities shall maintain the same ranking in liquidation, the same interest rate and interest payment dates, the same First Reset Date and early redemption rights (provided that the relevant exchange or variation may not itself trigger any early redemption right), the same rights to accrued interest and any other amounts payable under the Securities which, in each case, have accrued to Holders and have not been paid, the same rights to principal and interest, and, if publicly rated by Moody's and/or S&P immediately prior to such exchange or variation, at least the same credit rating immediately after such exchange or variation by both Moody's and S&P if the Securities are publicly rated by both such rating agencies, or by the relevant such Rating Agency if the Securities are only rated by one such Rating Agency, as compared with the relevant rating(s) immediately prior to such exchange or variation (as determined by the Issuer using reasonable measures available to it including discussions with Moody's and/or S&P to the extent practicable) and shall not contain terms providing for the mandatory deferral of interest and do not contain terms providing for loss absorption through principal write-down or conversion to shares;
- (v) the terms of the exchange or variation not being prejudicial to the interests of the Holders, including compliance with (iv) above, as certified to the benefit of the Holders by two directors of the Issuer, having consulted with an independent investment bank of international standing (for the avoidance of doubt the Fiscal Agent shall accept the certificates of the Issuer as sufficient evidence of the occurrence of a Withholding Tax Event, an Income Tax Deduction Event, an Accounting Event or a Rating Event and that such exchange or variation to the terms of the Securities are not prejudicial to the interest of the Holders); and
- (vi) the issue of legal opinions addressed to the Fiscal Agent for the benefit of the Holders from one or more international law firms of good reputation confirming (x) that the Issuer has capacity to assume all rights and obligations under the Exchanged Securities or Varied Securities and has obtained all necessary corporate or other relevant authorisations to assume all such rights and obligations and (y) the legality, validity and enforceability of the Exchanged Securities or Varied Securities.

## **7. Payments**

- (a) *Method of Payment*

- (i) Payments of principal and Coupon Amounts and all other payments on or in respect of the Securities will be in Euro and will be calculated by the Calculation Agent and effected through the Paying Agents.

Payments of principal, premium and interest will be made against presentation and surrender (or, in the case of a partial payment, endorsement) of Securities or the appropriate Coupons (as the case may be) at the specified office of any Paying Agent by Euro cheque drawn on, or by transfer to a Euro account maintained by the payee with, a bank in the Euro-zone. Payments of interest due in respect of any Security other than on presentation and surrender of matured Coupons shall be made only against presentation and either surrender or endorsement (as appropriate) of the relevant Security.

- (ii) The names of the initial Paying Agents and their initial specified offices are set out below. The Issuer reserves the right at any time to vary or terminate the appointment of any Paying Agent and to appoint additional or other Paying Agents provided that it will at all times maintain for so long as the Securities are listed on Euronext Amsterdam, or any other stock exchange or regulated securities market and the rules of such exchange or securities market so require, a Paying Agent having a specified office in such location as the rules of such exchange or securities market may require. Notice of any such termination or appointment and of any change in the specified offices of the Paying Agents will be given to the Holders in accordance with Condition 14.

- (b) *Payments subject to fiscal laws*

All payments made in accordance with these Terms and Conditions will be subject in all cases to any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 9.

- (c) *Surrender of unmatured Coupons*

Each Security should be presented for redemption together with all unmatured Coupons relating to it in respect of the First Fixed Rate Period, failing which the amount of any such missing unmatured Coupon (or, in the case of payment not being made in full, that proportion of the amount of such missing unmatured Coupon which the sum of principal so paid bears to the total principal amount due) will be deducted from the sum due for payment. Each amount of principal so deducted will be paid in the manner mentioned above against surrender of the relevant missing Coupon not later than 5 years after the due date for the relevant payment of principal.

Upon the due date for redemption of any Security, unmatured Coupons relating to such Security in respect of any Reset Period (whether or not attached) shall become void and no payment shall be made in respect of them. Where any Security is presented for redemption without all unmatured Coupons relating to it, redemption shall be made only against the provision of such indemnity as the Issuer may require.

- (e) *Payments on payment Business Days*

A Security or Coupon may only be presented for payment on a day (other than a Saturday or a Sunday) on which (i) commercial banks are open for general business in Amsterdam and, if different, in the place of the specified office of the relevant Paying Agent to whom such Security or Coupon is presented for payment and (ii) the TARGET System is operating.

No further interest or other payment will be made as a consequence of the day on which a Security or Coupon may be presented for payment under this paragraph falling after the due date. A Security or Coupon may not be presented for payment before the due date.

## 8. Enforcement Events

(a) If any of the following events (each an “**Enforcement Event**”) occurs:

(i) *Non-payment*

Subject to Condition 4(a) (*Deferral of Payments*), default is made in the payment of any amount in respect of the Securities on the due date for payment thereof and such default is not remedied within 14 days; or

(ii) *Winding-up*

An order is made or an effective resolution is passed for the Winding-up of the Issuer (except in the case of a winding-up for the purpose of a merger, reconstruction or amalgamation the terms of which have previously been approved by an Extraordinary Resolution (as defined in the Agency Agreement) of the Holders),

then, in the case of paragraph (i) (*Non-payment*), the Holder of such Security may, at its discretion and, subject to any applicable laws, without further notice, institute proceedings for the Winding-up of the Issuer in the Netherlands (but not elsewhere) and/or prove in any Winding-up of the Issuer, but may take no other action in respect of such default and, in the case of paragraph (ii) (*Winding-up*), the Securities will immediately become due and repayable at their principal amount together with accrued interest and any Arrears of Interest and Additional Amounts and/or prove in the Winding-up of the Issuer, subject always to the ranking provided in Condition 2 (*Status, Subordination*).

Except as provided in this Condition 8, a Holder shall otherwise have no right to accelerate payment of any Security in the case of an Enforcement Event.

(b) Subject as provided in this Condition 8, any Holder may at its discretion and without further notice institute such proceedings against the Issuer as it may think fit to enforce any term or condition binding on the Issuer under the Agency Agreement or the Securities provided that the Issuer shall not by virtue of the institution of any such proceedings be obliged to pay any sum or sums, in cash or otherwise, sooner than the same would otherwise have been payable by it.

## 9. Taxation

All payments by the Issuer in respect of the Securities and the Coupons will be made without withholding of or deduction for, or on any account of, any present or future taxes, duties, assessments or governmental charges of whatsoever nature imposed or levied by or on behalf of the Netherlands or any political subdivision thereof or by any authority therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law. In that event the Issuer will pay such additional amounts (“**Additional Amounts**”) as may be necessary in order that the net amounts receivable by Holders after such withholding or deduction shall equal the respective amounts of principal and interest which would have been receivable in respect of the Securities or the Coupons in the absence of such withholding or deduction, except that no such Additional Amounts shall be payable in relation to any payment with respect to any Security or Coupon:

(i) to, or to a third party on behalf of, a Holder who is liable to such taxes, duties, assessments or governmental charges in respect of such Security or Coupon by reason of his having some connection with the Netherlands other than the mere holding of such Security or Coupon; or

(ii) to, or to a third party on behalf of, a Holder if such withholding or deduction may be avoided by complying with any statutory requirement or by making a declaration of non-residence or other similar claim for exemption to the relevant tax authority; or

- (iii) to, or to a third party on behalf of, a Holder that is a partnership or a Holder that is not the sole beneficial owner of the Security or Coupon or which holds the Security or Coupon in a fiduciary capacity, to the extent that any of the members of the partnership, the beneficial owner or the settlor or beneficiary with respect to the fiduciary would not have been entitled to the payment of an additional amount had each of the members of the partnership, the beneficial owner, settlor or beneficiary (as the case may be) received directly his beneficial or distributive share of the payment; or
- (iv) presented for payment more than 30 days after the Relevant Date except to the extent that the Holder would have been entitled to such additional amounts on presenting the same for payment on the last day of such period of 30 days; or
- (v) in respect of any taxes, duties, assessments or governmental charges of whatsoever nature that are not imposed or levied by or on behalf of the Netherlands or any political subdivision thereof or by any authority therein or thereof having power to tax, including a FATCA Withholding.

In these Conditions, “**Relevant Date**” means the date on which payment in respect of it first becomes due or (if any amount of the money payable is improperly withheld or refused) the date on which payment in full of the amount outstanding is made or (if earlier) the date seven days after that on which notice is duly given to the Holders that, upon further presentation of the Security or Coupon being made in accordance with the Conditions, such payment will be made, provided that payment is in fact made upon such presentation.

References in these Terms and Conditions to any amounts which may become due and payable pursuant hereto shall be deemed to include any Additional Amounts which may become payable pursuant to the foregoing provisions.

## **10. Prescription**

Claims for payment in relation to Securities and Coupons will become void unless exercised within a period of five years from the due date for payment thereof.

## **11. Meetings of Securityholders and Modification**

### *(a) Meeting of Securityholders*

The Agency Agreement contains provisions for convening meetings of Securityholders to consider matters affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of any of these Conditions. Meetings may be held in the Netherlands, the United Kingdom, Belgium, Luxembourg, Germany or France. The notice convening the meeting shall specify the day, time and place of the meeting. Such a meeting may be convened by Securityholders holding not less than 10 per cent in principal amount of the Securities for the time being outstanding. The quorum for any meeting convened to consider an Extraordinary Resolution will be two or more persons holding or representing a clear majority in principal amount of the Securities for the time being outstanding; if such quorum is not present the meeting will be adjourned, and at any adjourned meeting the quorum to consider an Extraordinary Resolution will be two or more persons being or representing Securityholders whatever the principal amount of the Securities held or represented; in each case, unless the business of such meeting includes consideration of proposals, inter alia, (i) to modify the dates on which interest is payable in respect of the Securities, (ii) to reduce or cancel the principal amount of, any premium payable on redemption of, or interest on or to vary the method of calculating the rate of interest or to reduce the rate of interest on, the Securities, (iii) to change the currency of payment of the Securities or the Coupons, or (iv) to modify the provisions concerning the quorum required at any meeting of Securityholders or the majority required to pass an Extraordinary Resolution, in which case the necessary quorum will be two or more persons holding or representing not less than 75 per cent; if such quorum is not present the meeting will be adjourned, and at any adjourned

meeting such necessary quorum will be two or more persons holding or representing not less than 25 per cent, in principal amount of the Securities for the time being outstanding. Any Extraordinary Resolution duly passed shall be binding on Securityholders (whether or not they were present at the meeting at which such resolution was passed) and on all Couponholders.

The Agency Agreement provides that a resolution in writing signed by or on behalf of the holders of not less than 90 per cent. in principal amount of the Securities outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Securityholders duly convened and held. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Securityholders.

(b) *Modification of Agency Agreement*

The Issuer shall only permit any modification of, or any waiver or authorisation of any breach or proposed breach of or any failure to comply with, the Agency Agreement, if to do so could not reasonably be expected to be prejudicial to the interests of the Securityholders.

Any such modification shall be binding on the Holders and any such modification shall be notified to the Holders in accordance with Condition 14 as soon as practicable thereafter.

**12. Substitution of the Issuer**

(a) The Issuer may, and the Holders hereby irrevocably agree in advance that the Issuer may without any further consent of the Holders being required, when no payment of principal or interest on any of the Securities is in default, be replaced and substituted by any directly or indirectly wholly owned Subsidiary of the Issuer (the “**Substituted Debtor**”) as principal debtor in respect of the Securities provided that:

(i) such documents shall be executed by the Substituted Debtor and the Issuer as may be necessary to give full effect to the substitution (together the “**Documents**”) and (without limiting the generality of the foregoing) pursuant to which the Substituted Debtor shall undertake in favour of each Holder to be bound by the Terms and Conditions of the Securities and the provisions of the Agency Agreement as fully as if the Substituted Debtor had been named in the Securities and the Agency Agreement as the principal debtor in respect of the Securities in place of the Issuer and pursuant to which the Issuer shall guarantee, which guarantee shall be unconditional and irrevocable, (the “**Guarantee**”) in favour of each Holder the payment of all sums payable (including any Additional Amounts payable pursuant to Condition 9) in respect of the Securities;

(ii) where the Substituted Debtor is incorporated, domiciled or resident for taxation purposes in a territory other than The Netherlands, the Documents shall contain a covenant and/or such other provisions as may be necessary to ensure that each Holder has the benefit of a covenant in terms corresponding to the provisions of Condition 9 with the substitution for the references to The Netherlands of references to the territory in which the Substituted Debtor is incorporated, domiciled and/or resident for taxation purposes. The Documents shall also contain a covenant by the Substituted Debtor and the Issuer to indemnify and hold harmless each Holder against all liabilities, costs, charges and expenses (provided that insofar as the liabilities, costs, charges and expenses are taxes or duties, the same arise by reason of a law or regulation having legal effect or being in reasonable contemplation thereof on the date such substitution becomes effective) which may be incurred by or levied against such holder as a result of any substitution pursuant to this Condition and which would not have been so incurred or levied had such substitution not been made (and, without limiting the foregoing, such liabilities, costs, charges and expenses shall include any and all taxes or duties which are imposed on any such Holder by any political sub-



division or taxing authority of any country in which such Holder resides or is subject to any such tax or duty and which would not have been so imposed had such substitution not been made);

- (iii) the Documents shall contain a warranty and representation by the Substituted Debtor and the Issuer (a) that each of the Substituted Debtor and the Issuer has obtained all necessary governmental and regulatory approvals and consents for such substitution and the performance of its obligations under the Documents, and that all such approvals and consents are in full force and effect and (b) that the obligations assumed by each of the Substituted Debtor and the Issuer under the Documents are all valid and binding in accordance with their respective terms and enforceable by each Holder;
  - (iv) each stock exchange which has Securities listed thereon shall have confirmed that following the proposed substitution of the Substituted Debtor the Securities would continue to be listed on such stock exchange;
  - (v) the Issuer shall have delivered to the Fiscal Agent or procured the delivery to the Fiscal Agent of a legal opinion from the internal legal adviser to the Issuer to the effect that the Documents (including the Guarantee) constitute legal, valid and binding obligations of the Issuer, such opinion to be dated not more than three days prior to the date of substitution of the Substituted Debtor for the Issuer and to be available for inspection by Holders at the specified office of the Fiscal Agent; and
  - (vi) the Issuer shall have delivered to the Fiscal Agent or procured the delivery to the Fiscal Agent of a legal opinion from a reputable firm of Dutch lawyers to the effect that the Documents (including the Guarantee) constitute legal, valid and binding obligations of the Substituted Debtor and the Issuer under Dutch law, such opinion to be dated not more than three days prior to the date of substitution of the Substituted Debtor for the Issuer and to be available for inspection by Holders at the specified office of the Fiscal Agent.
- (b) In connection with any substitution effected pursuant to this Condition, neither the Issuer nor the Substituted Debtor need have any regard to the consequences of any such substitution for individual Holders resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory and no Holder, except as provided in Condition 12(a)(ii), shall be entitled to claim from the Issuer or any Substituted Debtor under the Securities any indemnification or payment in respect of any tax or other consequences arising from such substitution.
- (c) In respect of any substitution pursuant to this Condition in respect of the Securities, the Documents referred to in Condition 12(a) above shall provide for such further amendment of the Terms and Conditions of the Securities as shall be necessary or desirable to ensure that the Securities constitute subordinated obligations of the Substituted Debtor, subordinated to no greater than the same extent as the Issuer's obligations prior to its substitution to make payments of principal in respect of the Securities under Condition 2, such that the Substituted Debtor will only be obliged to make payments of principal in respect of the Securities to the extent that the Issuer would have been so obliged under Condition 2 of the Terms and Conditions had it remained as principal obligor under the Securities.
- (d) With respect to the Securities, the Issuer shall be entitled, by notice to the Holders given in accordance with Condition 14, at any time to effect a substitution which does not comply with paragraph (c) above provided that the terms of such substitution have been approved by an Extraordinary Resolution of the Holders or to waive all and any rights to effect a substitution of the principal debtor pursuant to this Condition. Any such notice of waiver shall be irrevocable.

- (e) Upon the execution of the Documents as referred to in paragraph (a) above, and subject to the notice as referred to in paragraph (g) below having been given, the Substituted Debtor shall be deemed to be named in the Securities as the principal debtor in place of the Issuer and the Securities shall thereupon be deemed to be amended to give effect to the substitution. The execution of the Documents shall operate to release the Issuer as issuer from all of its obligations as principal debtor in respect of the Securities save that any claims under the Securities prior to release shall inure for the benefit of Holders.
- (f) The Documents shall be deposited with and held by the Fiscal Agent for so long as any Securities remain outstanding and for so long as any claim made against the Substituted Debtor by any Holder in relation to the Securities or the Documents shall not have been finally adjudicated, settled or discharged. The Substituted Debtor and the Issuer shall acknowledge in the Documents the right of every Holder to the production of the Documents for the enforcement of any of the Securities or the Documents.
- (g) Not later than 15 days after the execution of the Documents, the Substituted Debtor shall give notice thereof to the Holders in accordance with Condition 14.

### **13. Replacement of Securities and Coupons**

Should any Security or Coupon be lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Fiscal Agent (or such other place of which notice shall have been given in accordance with Condition 14) upon payment by the claimant of the expenses incurred in connection therewith and on such terms as to evidence and indemnity and/or as the Issuer may reasonably require. The mutilated or defaced Security or Coupon must be surrendered before any replacement will be issued.

### **14. Notices**

Notices to Holders shall be given by publication in the English language in a daily newspaper having general circulation in the Netherlands (which is expected to be *Het Financieele Dagblad*). Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the date of the first publication as provided above.

### **15. Further Issues**

The Issuer is at liberty from time to time, without any further consent of the Holders being required, to create and issue further Securities ranking *pari passu* in all respects (or in all respects save for the date from which interest thereon accrues and the amount of the first payment of interest on such further Securities) and so that the same shall be consolidated and form a single series with the outstanding Securities.

### **16. Agents**

The Issuer will procure that there shall at all times be a Calculation Agent and a Fiscal Agent so long as any Security is outstanding. If either the Calculation Agent or the Fiscal Agent is unable or unwilling to act as such or if it fails to make a determination or calculation or otherwise fails to perform its duties under these Terms and Conditions or the Agency Agreement, as appropriate, the Issuer shall appoint a reputable independent investment bank of good standing to act as such in its place. Neither the termination of the appointment of a Calculation Agent or the Fiscal Agent nor the resignation of either will be effective without a successor having been appointed.

All calculations and determinations made by the Calculation Agent or the Fiscal Agent in relation to the Securities shall (save in the case of manifest error) be final and binding on the Issuer, the Paying Agents and the Holders.

None of the Issuer and the Paying Agents shall have any responsibility to any person for any errors or omissions in any calculation by the Calculation Agent.

## 17. Governing Law and Jurisdiction

- (a) The Agency Agreement, these Terms and Conditions, the Securities and the Coupons are governed by, and shall be construed in accordance with, the laws of the Netherlands.
- (b) The Issuer submits for the exclusive benefit of the Holders to the jurisdiction of the courts of Amsterdam, the Netherlands, judging in first instance, and its appellate courts. Without prejudice to the foregoing, the Issuer further irrevocably agrees that any suit, action, proceedings or disputes which may arise out of or in connection with the Agency Agreement and the Securities may be brought in any other court of competent jurisdiction.

## 18. Definitions

In these Terms and Conditions:

“**5 year Swap Rate**” has the meaning ascribed to it in Condition 5(b);

“**2010 Capital Securities**” means the Issuer’s €500,000,000 Fixed-to-Floating Rate Perpetual Capital Securities issued on 9 February 2010 (ISIN XS0484213268);

“**2013 Capital Securities**” means the Issuer’s EUR Nachrangige Bürgeranleihe-Westküstenleitung (ISIN DE000A1HKQE8);

“**Accounting Event**” has the meaning ascribed to it in Condition 6(d);

“**Additional Amounts**” has the meaning ascribed thereto in Condition 9;

“**Agency Agreement**” has the meaning ascribed to it in the preamble;

“**Agents**” means the agents appointed pursuant to the Agency Agreement and such term shall, unless the context otherwise requires, include the Fiscal Agent;

“**Arrears of Interest**” means any amounts deferred in accordance with Condition 4(a);

“**Business Day**” means a day, other than a Saturday or Sunday, which is a TARGET Settlement Day and on which commercial banks and foreign exchange markets are open for general business in Amsterdam;

“**Calculation Agent**” means The Bank of New York Mellon, London Branch as calculation agent in relation to the Securities, or its successor or successors for the time being appointed under the Agency Agreement;

“**Calculation Amount**” has the meaning ascribed to it in Condition 5(b);

“**Change of Control**” means that the State of the Netherlands ceases to: (i) own directly or indirectly (through any municipality, governmental body and/or governmental organisation) more than 50 per cent. of the total issued share capital of the Issuer or (ii) have the power directly or indirectly (through any municipality, governmental body and/or governmental organisation) to cast, or control the casting of, more than 50 per cent. of the maximum number of votes that might be cast at general meetings of the Issuer. For the purpose of this definition, “control” (*beschikking*), “share” (*aandeel*) and “votes” (*stemmen*) have the meanings given to them in Chapter 5.3 of the Dutch Financial Markets Supervision Act (*Wet op het financieel toezicht*);

“**Clean-up Call**” has the meaning ascribed to it in Condition 6(g);

“**Condition**” means any of the numbered paragraphs of these Terms and Conditions of the Securities;

“**Coupons**” has the meaning ascribed to it in the preamble;

“**Couponholder**” has the meaning ascribed to it in the preamble;

“**Coupon Amount**” means (i) in respect of a Coupon Payment, the amount of interest payable on a Security for the relevant Coupon Period in accordance with Condition 5 and (ii) for the purposes of Conditions 6(c), 6(d), 6(e) and 6(f) any interest accrued from (and including) the preceding Coupon Payment Date (or, if none, the Issue Date) to (but excluding) the due date for redemption if not a Coupon Payment Date as provided for in Condition 5;

“**Coupon Determination Date**” means, in respect of the period from (and including) the First Reset Date, the second Business Day before the commencement of each Coupon Period;

“**Coupon Payment**” means, in respect of a Coupon Payment Date, the aggregate Coupon Amounts for the Coupon Period ending on such Coupon Payment Date;

“**Coupon Payment Date**” means each of (i) 1 June in each year, starting 1 June 2017 in respect of a short first coupon, (ii) the First Reset Date, (iii) the First Step-up Date and (iv) the Second Step-up Date, provided that if any Coupon Payment Date would otherwise fall on a day which is not a Business Day it shall be postponed to the next Business Day unless it would then fall into the next calendar month in which event the Coupon Payment Date shall be brought forward to the immediately preceding Business Day;

“**Coupon Period**” means the period commencing on (and including) the Issue Date and ending on (but excluding) the first Coupon Payment Date and each successive period commencing on (and including) a Coupon Payment Date and ending on (but excluding) the next succeeding Coupon Payment Date or the date of redemption, as the case may be;

“**Coupon Rate**” means the First Fixed Coupon Rate and each Reset Coupon Rate, as the case may be, which may be increased by 5 per cent. per annum on account of a Change of Control which has occurred in respect of the Securities;

“**Deferral Notice**” has the meaning ascribed to it in Condition 4(a);

“**Deferred Coupon Payment**” means any Arrears of Interest which pursuant to Condition 4(a) the Issuer has elected to defer and which have not been satisfied;

“**Deferred Coupon Satisfaction Date**” means:

- (i) the date on which the Issuer voluntarily satisfies a Deferred Coupon Payment, as notified by the Issuer to the Holders, the Fiscal Agent and the Calculation Agent in accordance with Condition 4(b); or
- (ii) the date on which the Issuer is required to satisfy all Deferred Coupon Payments pursuant to Condition 4(b);

“**Documents**” has the meaning ascribed to it in Condition 12(a);

“**EU-IFRS**” means the International Financial Reporting Standards applicable from time to time to the consolidated financial statements of listed companies in the EU;

“**FATCA**” means (a) Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986, as amended, any current or future regulations or official interpretations thereof, (b) any treaty, law, regulation or other official guidance enacted in any other jurisdiction, or relating to an intergovernmental agreement between the U.S. and any

other jurisdiction, which (in either case) facilitates the implementation of paragraph (a) above, or (c) any agreement pursuant to the implementation of paragraphs (a) or (b) above with the U.S. Internal Revenue Service, the U.S. government or any governmental or taxation authority in any other jurisdiction;

“**FATCA Withholding**” means any deduction or withholding required pursuant to FATCA;

“**First Fixed Coupon Rate**” has the meaning ascribed to it in Condition 5(b);

“**First Fixed Rate Period**” means the period from (and including) the Issue Date to (but excluding) the first Reset Date;

“**First Reset Date**” means 1 June 2024;

“**First Step-up Date**” means 1 June 2029;

“**Fiscal Agent**” has the meaning ascribed to it in the preamble;

“**Guarantee**” has the meaning ascribed to it in Condition 12(a);

“**Holder**” has the meaning ascribed to it in the preamble;

“**Income Tax Deduction Event**” has the meaning ascribed to it in Condition 6(c);

“**Interest**” shall, where appropriate, include Coupon Amounts and Deferred Coupon Payments;

“**Issue Date**” means 12 April 2017, being the date of initial issue of the Securities;

“**Issuer**” means TenneT Holding B.V.;

“**Mandatory Payment Event**” shall have occurred if:

- (a) a declaration or payment of any distribution or dividend or any other payment made by the Issuer on its share capital or by the Issuer or any Subsidiary of the Issuer, as the case may be, on any Parity Securities;
- (b) a redemption, repurchase, repayment, or other acquisition by the Issuer or any Subsidiary of the Issuer of any shares of the Issuer;
- (c) a redemption, repurchase, repayment or other acquisition by the Issuer or any Subsidiary of the Issuer of any Parity Securities or any Securities;

save for:

- (i) in each case, any compulsory distribution, dividend, other payment, redemption, repurchase, repayment, or other acquisition required by the terms of such securities or by mandatory operation of applicable law;
- (ii) in the case of (b) above only, the redemption, repurchase, repayment, or other acquisition is executed in connection with, or for the purpose of any share buyback programme then in force and duly approved by the shareholders’ general meeting of the Issuer or the relevant Subsidiary of the Issuer (as applicable) or any existing or future stock option plan or free share allocation plan or other incentive plan reserved for directors, officers and/or employees of the Issuer or the relevant Subsidiary of the Issuer or any associated hedging transaction; and

- (iii) in the case of (c) above only, any redemption, repurchase, repayment, or other acquisition executed in whole or in part in the form of a public tender offer or public exchange offer at a consideration per security below its par value;

“**Margin**” means (i) in respect of each Coupon Period from and including the First Reset Date to but excluding the First Step-up Date: 2.533 per cent. per annum (no step-up), (ii) in respect of each Coupon Period from and including the First Step-up Date to but excluding the Second Step-up Date: 2.783 per cent. per annum (including a 0.25% step-up over the initial credit spread); and (iii) in respect of each Coupon Period from and including the Second Step-up Date to but excluding the date on which the Issuer redeems the Securities: 3.533 per cent. per annum (including a further 0.75% step-up);

“**Paying Agents**” has the meaning ascribed to it in the preamble;

“**Payment**” means any Coupon Payment or Deferred Coupon Payment;

“**Parity Securities**” means (i) any securities or other similar instruments issued by the Issuer which rank, or are expressed to rank, *pari passu* with the Issuer's obligations under the Securities and (ii) any securities or other similar instruments issued by a Subsidiary of the Issuer which have the benefit of a guarantee from the Issuer (or similar instrument from the Issuer), which rank or are expressed to rank *pari passu* with the Issuer's obligations under the Securities (Parity Securities include, for the avoidance of doubt, the 2010 Capital Securities and 2013 Capital Securities);

“**Puttable Senior Securities**” means securities which (i) are debt securities of the Issuer ranking senior to the Securities or any securities or other similar instruments issued by a Subsidiary which have the benefit of a guarantee from the Issuer (or similar instrument from the Issuer) which rank or are expressed to rank senior to the Issuer's obligations under the Securities, and (ii) may become due for redemption in accordance with their terms due to the exercise of any investor put rights which the holders of such securities may have in respect of the Change of Control;

“**Rating Agency**” means any of the following: Moody's Investors Service Limited (“**Moody's**”) or Standard & Poor's Credit Market Services Europe Limited (“**S&P**”), and any other rating agency of equivalent international standing solicited from time to time by the Issuer to grant a rating to the Issuer and/or the Securities and in each case, any of their respective successors to the rating business thereof;

“**Rating Event**” has the meaning ascribed to it in Condition 6(e);

“**Reset Coupon Determination Date**” has the meaning ascribed to it in Condition 5(b);

“**Reset Date**” means the First Reset Date and each fifth anniversary thereafter;

“**Reset Period**” means each period beginning on (and including) a Reset Date and ending on (but excluding) the next succeeding Reset Date thereafter and “relevant Reset Period” shall be construed accordingly;

“**Reset Reference Bank Rate**” has the meaning ascribed to it in Condition 5(b);

“**Reset Reference Banks**” has the meaning ascribed to it in Condition 5(b);

“**Reset Screen Page**” has the meaning ascribed to it in Condition 5(b);

“**Second Step-up Date**” means 1 June 2044;

“**Securities**” means € 1,000,000,000 Fixed-to Reset Rate NC7.1 Perpetual Capital Securities, and such expression shall include any further Securities issued pursuant to Condition 15 and forming a single series with the Securities, and “**Security**” means any of the Securities;

“**Securityholder**” has the meaning ascribed to it in the preamble;

“**Subsidiary**” means a subsidiary of the Issuer within the meaning of Section 2:24a of the Dutch Civil Code (whether Dutch or non-Dutch);

“**Substituted Debtor**” has the meaning ascribed to it in Condition 12(a);

“**TARGET Settlement Day**” means a day on which TARGET2 is open for the settlement of payments in euro;

“**TARGET2**” means the Trans-European Automated Real-Time Gross Settlement Express Transfer payment system which utilises a single shared platform and which was launched on 19 November 2007 or any successor thereto;

“**TARGET System**” means the TARGET2 system;

“**Winding-up**” means a situation where (i) an order is made or a decree or resolution is passed for the winding-up, liquidation or dissolution of the Issuer, except for the purposes of a solvent merger, reconstruction or amalgamation, or (ii) a trustee (*curator*) is appointed by the competent District Court in the Netherlands in the event of bankruptcy (*faillissement*) affecting the whole or a substantial part of the undertaking or assets of the Issuer and such appointment is not discharged within 30 days; and

“**Withholding Tax Event**” has the meaning ascribed thereto in Condition 6(c).

Replacement intent: The following paragraphs in italics do not form part of the Conditions.

*The Issuer intends (without thereby assuming a legal or contractual obligation) that it will redeem or repurchase the Securities only to the extent they are replaced with instruments which provide at least equivalent S&P equity credit. Such replacement would be provided during the 360-day period prior to the date of such redemption or repurchase. The net proceeds received by the Issuer or a Subsidiary of the Issuer from the sale to third party purchasers of securities which are assigned an S&P “equity credit” (or such similar nomenclature used by S&P from time to time) that is at least equal to the equity credit assigned to the Securities by S&P, at the time of sale or issuance of such securities (but taking into account any changes in hybrid capital methodology or another relevant methodology or the interpretation thereof since the issuance of the Securities), will count as replacement.*

*The following exceptions apply as to the Issuer's replacement intention. The Securities are not required to be replaced:*

- a) if the rating assigned by S&P to the Issuer is at least “A-”(or such equivalent nomenclature then used by S&P) and the Issuer is comfortable that such rating would not fall below this level as a result of such redemption or repurchase; or*
- b) if the stand-alone credit profile assigned by S&P to the Issuer is at least “bbb” (or such equivalent nomenclature then used by S&P) and the Issuer is comfortable that such stand-alone credit profile would not fall below this level as a result of such redemption or repurchase; or*
- c) in the case of repurchase of less than (x) 10 per cent. of the aggregate principal amount of the Securities originally issued in any period of 12 consecutive months or (y) 25 per cent. of the aggregate principal amount of the Securities originally issued in any period of 10 consecutive years is repurchased, or*
- d) if the Securities are redeemed pursuant to an Accounting Event, a Rating Event, an Income Tax Deduction Event, a Withholding Tax Event, a Change of Control or a Clean-up Call, or*
- e) if the Securities are not or no longer assigned an “equity credit” (or such similar nomenclature then used by S&P at the time of such redemption or repurchase), or*
- f) in the case of any repurchase, up to the maximum amount of Securities repurchased that would allow the Issuer’s aggregate principal amount of hybrid capital remaining outstanding after such repurchase to be equal to or greater than the maximum aggregate principal amount of hybrid capital to which S&P would assign “equity credit” (or such similar nomenclature then used by S&P at the time of such repurchase); or*
- g) if such redemption or repurchase occurs on or after the relevant Second Step-up Date.*



## **Summary of Provisions relating to the Securities while in Global Form**

The Temporary Global Security and the Permanent Global Security will contain provisions which apply to the Securities while they are in global form, some of which modify the effect of the Conditions. The following is a summary of certain of those provisions as they relate to the Securities:

### **1 Exchange**

The Temporary Global Security is exchangeable in whole or in part for interests in the Permanent Global Security on or after a date which is expected to be 22 May 2017, upon certification as to non-U.S. beneficial ownership in the form set out in the Temporary Global Security. The Permanent Global Security is exchangeable in whole but not, except as provided in the next paragraph, in part (free of charge to the holder) for the Definitive Securities described below (i) if the Permanent Global Security is held on behalf of a clearing system and such clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so or (ii) if principal in respect of any Securities is not paid when due and payable. Thereupon, the holder may give notice to the Fiscal Agent of its intention to exchange the Permanent Global Security for Definitive Securities on or after the Exchange Date specified in the notice.

If principal in respect of any Securities is not paid when due and payable the holder of the Permanent Global Security may, by notice to the Fiscal Agent (which may but need not be the default notice referred to in “Summary of Provisions relating to the Securities while in Global Form – Default” below), require the exchange of a specified principal amount of the Permanent Global Security (which may be equal to or (provided that, if the Permanent Global Security is held by or on behalf of a clearing system, that clearing system agrees) less than the outstanding principal amount of Securities represented thereby) for Definitive Securities on or after the Exchange Date (as defined below) specified in such notice.

On or after any Exchange Date the holder of the Permanent Global Security may surrender the Permanent Global Security or, in the case of a partial exchange, present it for endorsement to or to the order of the Fiscal Agent. In exchange for the Permanent Global Security, or on endorsement in respect of the part thereof to be exchanged, the Issuer shall deliver, or procure the delivery of, an equal aggregate principal amount of duly executed and authenticated Definitive Securities (having attached to them all Coupons in respect of interest which has not already been paid on the Permanent Global Security), security printed in accordance with any applicable legal and stock exchange requirements and in or substantially in the form set out in Schedule 1 to the Fiscal Agency Agreement. On exchange in full of the Permanent Global Security, the Issuer will, if the holder so requests, procure that it is cancelled and returned to the holder together with any relevant Definitive Securities.

“**Exchange Date**” means a day falling not less than 60 days or, in the case of exchange pursuant to (ii) above, 30 days, after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Fiscal Agent is located and, except in the case of exchange pursuant to (i) above, in the cities in which the relevant clearing system is located.

### **2 Payments**

No payment will be made on the Temporary Global Security unless exchange for an interest in the Permanent Global Security is improperly withheld or refused. Payments of principal, premium and interest in respect of the Securities represented by the Permanent Global Security will be made against presentation for endorsement and, if no further payment falls to be made in respect of the Securities, surrender of the Permanent Global Security to or to the order of the Fiscal Agent or such other Paying Agent as shall have

been notified to the Holders for such purpose. A record of each payment so made will be endorsed in the appropriate schedule to the Permanent Global Security, which endorsement will be *prima facie* evidence that such payment has been made in respect of the Securities.

### **3 Notices**

So long as the Securities are represented by the Permanent Global Security and the Permanent Global Security is held on behalf of a clearing system, notices to Holders may be given by delivery of the relevant notice to that clearing system for communication by it to entitled accountholders in substitution for publication as required by the Conditions.

### **4 Prescription**

Claims against the Issuer in respect of principal, premium and interest on the Securities while the Securities are represented by the Permanent Global Security will become void unless it is presented for payment within a period of five years from the date the relevant payment first became due.

### **5 Meetings**

The holder of the Permanent Global Security shall (unless the Permanent Global Security represents only one Security) be treated as being two persons for the purposes of any quorum requirements of a meeting of Holders and, at any such meeting, as having one vote in respect of each €1,000 in principal amount of the Securities.

### **6 Purchase and Cancellation**

Cancellation of any Security required by the Conditions to be cancelled following its purchase will be effected by reduction in the principal amount of the Permanent Global Security.

### **7 Default**

The Permanent Global Security provides that the holder may cause the Permanent Global Security or a portion of it to become due and payable in the circumstances described in Condition 8 by stating in the notice to the Fiscal Agent the principal amount of Securities which is being declared due and payable. If principal in respect of any Security is not paid when due and payable, the holder of the Permanent Global Security may elect that the Permanent Global Security becomes void as to a specified portion and that the persons entitled to such portion, as accountholders with a clearing system, acquire direct enforcement rights against the Issuer under further provisions set out in the Permanent Global Security.

## Business Description of the Issuer

### Introduction

The Issuer was incorporated as a private limited liability company (*besloten vennootschap met beperkte aansprakelijkheid*) under the laws of the Netherlands on 28 April 1994 and operates under the laws of the Netherlands. The Issuer has its corporate seat in Arnhem, the Netherlands and has its registered office at Utrechtseweg 310, 6812 AR Arnhem, the Netherlands (telephone number +31 26 373 1111). The Issuer is registered with the Dutch Chamber of Commerce under registration number 09083317.

### Objects

Article 2 of the Issuer's articles of association, regarding its objects, reads as follows (translated from the original Dutch language version):

“2.1. The objects of the company are to, directly or indirectly, participate in or to take an interest in any other way in, and to conduct the management of other business enterprises with objects as described in this paragraph and paragraph 2 of this article or objects which are similar or related thereto, furthermore to finance third parties and to provide security or undertake the obligations of third parties in any way, as well as to do everything that is in conformance with the provisions of this article or related or conducive thereto in the broadest sense.

2.2. The objects of the other business enterprises mentioned in paragraph 1 of this article may include:

- (a) to provide for the transport and dispatch of electrical energy;
- (b) to install, operate, manage and/or maintain networks intended for the transport of electricity, including connections that cross national borders as well as to measure the electrical energy supplied to and/or withdrawn from these networks;
- (c) to render system services and other services for the electricity supply within the Netherlands and abroad;
- (d) to conduct operations and/or to promote market forces in the area of energy and the environment, including but not limited to operating exchanges and other trading and market places, registering and issuing rights and certificates and issuing subsidies and other payments;
- (e) to lease, to allow third parties to use or to make available in any other way facilities, goods and/or rights, including networks connected by optical fibre cables and telecommunication equipment and areas belonging to masts and buildings;
- (f) to conduct operations related or connected to the above objects as well as to perform all other tasks charged to the company in or pursuant to any statutory scheme or designation from competent authorities; and

as well as to do everything that is in conformance with the above objects or related or conducive to the above objects in the broadest sense.

As long as the company is part of a group with the transmission system operator it is not permitted to engage in acts or activities that may be contrary to the interest of the operation of electricity transmission systems.”

## Capitalisation and Group Structure

The authorised share capital of the Issuer is EUR 500,000,000, comprising of one million registered shares with a nominal value of EUR 500 each. A total of two hundred thousand registered shares have been issued, all of which are fully paid.

The Issuer's sole shareholder is the State, represented by the Ministry of Finance (as opposed to the Ministry of Economic Affairs being the legislator in respect of the energy sector). On 18 October 2013, the Dutch government published its Policy on Government Participations 2013. In this policy the State categorised its participations in three categories:

1. predetermined temporary state-ownership;
2. permanent state-ownership; and
3. non-permanent state-ownership.

The category "permanent state-ownership" contains participations in respect of which the Dutch government deems it important that the State maintains a controlling influence by means of at least a majority stake. It does not entail that there cannot be any additional private or public shareholders. However, the State must maintain a controlling interest. The State's participation in the Issuer has been placed in the "permanent state-ownership" category. The Dutch government will not seek private parties to make risk-bearing investments in the Issuer's Dutch activities. However, the Dutch government may review the possibility of entering into strategic cooperations or cross-participations with other transmission system operators certified under the European rules by means of cross-participations. No such transaction will, however, take place before the Second Chamber of the Dutch Parliament has been consulted.

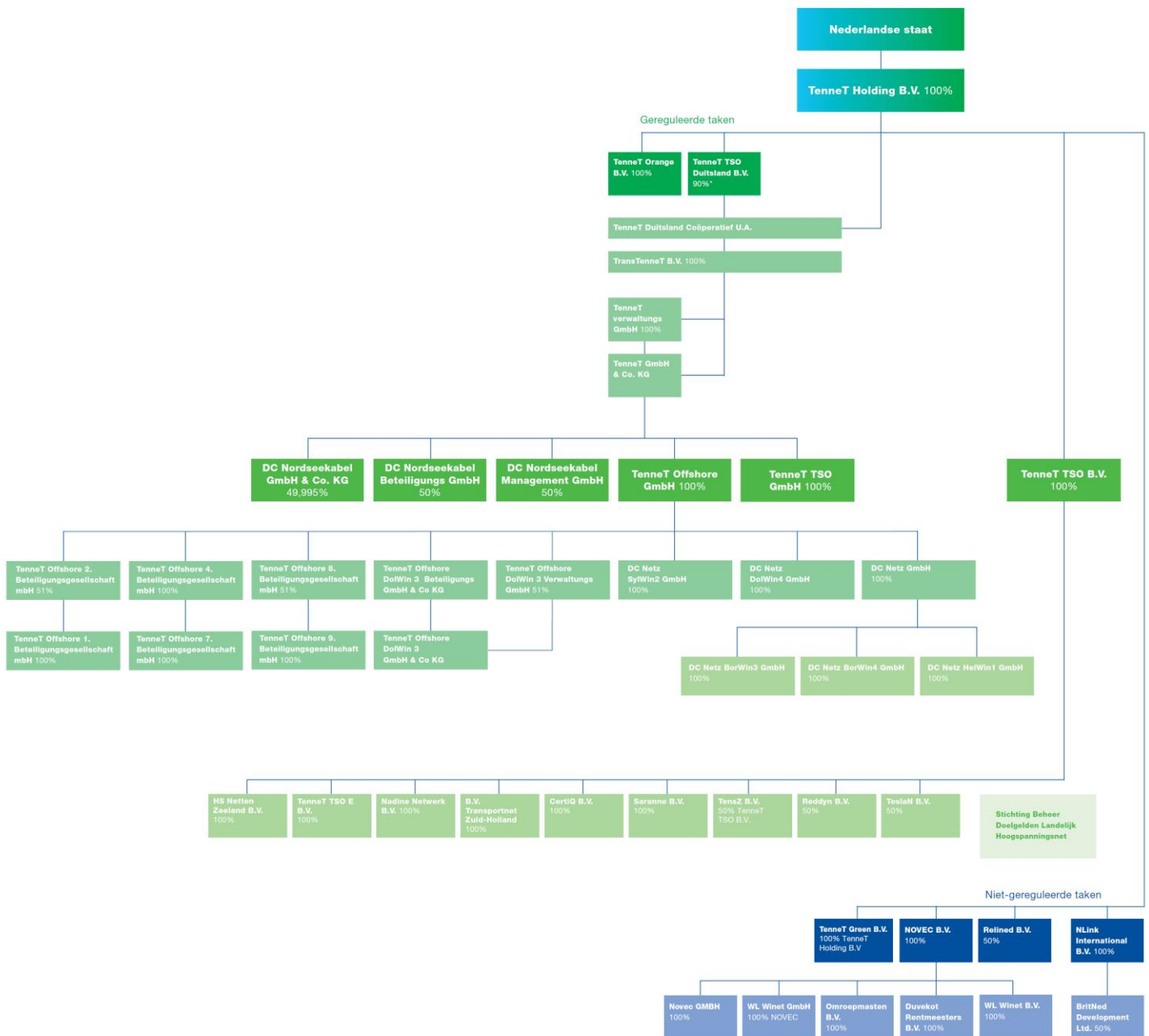
In the Policy on Government Participations 2013, the State announced that (i) for the time being, it wishes to retain full ownership of the Issuer and (ii) it will hold annual reviews of the State's participations. Every participation (including the Issuer), shall be evaluated at least once every seven years in order to determine whether it is still feasible and in the public interest for the State to keep a majority interest in such participation. Such review will focus on an assessment of (i) the public framework, (ii) corporate governance, (iii) the economic position, (iv) the strategic environment of the participation and (v) the manner in which public interest are met. Furthermore, the Policy on Government Participations 2013 provides that the State will seek to increase its influence over certain of the Issuer's business decisions and the Issuer's corporate governance (see "*Risk factors – Risks relating to structure of the Issuer – Influence of the State of the Netherlands as the sole shareholder of the Issuer*" and "*Business Description of the Issuer – Corporate Governance*"). It is noted that the business of the Issuer is regulated by the European Union's third package on the internal energy market (including the third EU Electricity Directive 2009/72/EC) and the Electricity Act (as amended to implement the aforesaid Electricity Directive 2009/72/EC).

The current Group structure, headed by the Issuer, was established in 2005 through a number of mergers and demergers with the objective to separate regulated and non-regulated activities of the Group in accordance with article 17a of the Electricity Act. All Dutch regulated activities of the Group are performed by either TenneT TSO NL or one of its subsidiaries. With a few exceptions, TenneT TSO NL and its subsidiaries are not allowed to perform activities that could create competition with third parties. Any permitted unregulated activities are performed by subsidiaries (excluding TenneT TSO NL and its subsidiaries) and participations positioned directly under the Issuer or directly or indirectly under such subsidiaries. The unregulated activities of these subsidiaries are not allowed to conflict with the – regulated – interests of TenneT TSO NL. All German regulated activities are performed by TenneT TSO Germany and/or TenneT Offshore Germany and its subsidiaries.

The legal structure of the Group as of 31 December 2016 is as follows (minority participations excluded):

# TenneT Group legal overview

(per 31 december 2016)



\* 10% Stichting Beheer Doelgeden Landelijk Hoogspanningsnet

## History and development of the Issuer

The history and development of the Issuer is inextricably linked with the history and development of the Dutch and German electricity markets.

### *Dutch electricity market*

The Dutch electricity market is regulated by the Electricity Act. Many provisions of the Electricity Act are detailed in subordinate legislation laid down by the Crown, the Minister of Economic Affairs and the ACM. The ACM is the market regulator and has comprehensive *ex ante* and *ex post* regulatory powers, which include the adoption of binding conditions and tariffs for third party network access.

Under the Electricity Act, generation and supply activities on the one hand and network operation activities on the other may not be integrated in one legal entity. When the Electricity Act was implemented in 1998, the generation companies and the distribution companies had to transfer the operation and management of their electricity networks to separate limited liability companies. These separate limited liability companies must operate independently and provide non-discriminatory network access against regulated tariffs and conditions. As of 1 January 2011, the network companies have to be fully unbundled from energy (including electricity) generation, trading and supply companies. TenneT TSO NL and its predecessors have been fully unbundled since they started operations under the Electricity Act.

Transmission system operators must operate, maintain and develop their installations in an efficient, safe, reliable and environmental friendly manner. The Dutch electricity network is laid out in a “cascade” of voltage levels. The national transmission network is operated at 220 kV or 380 kV (extra high voltage) and at a tension level of 110 kV or 150 kV (high voltage). Distribution networks are operated at levels of up to 50 kV.

All Dutch regulated activities of the Group are performed by TenneT TSO NL and its subsidiaries. TenneT TSO NL operates substantially all networks with a voltage level of 110 kV, 150 kV, 220 kV or 380 kV. The lower voltage networks are operated by various regional distribution network companies.

The third Electricity EU Directive (2009/72/EC) requires that an operator is certified by the national regulatory authority before it is approved and designated as a transmission system operator. By decision of 18 December 2013, the ACM has certified TenneT TSO NL as the transmission system operator for the Dutch National HV Grid (as defined below) and as an interconnector operator for the southern part of the NorNed Cable. In addition, TenneT TSO NL has been certified and appointed as transmission system operator for the Dutch offshore grid on 13 June 2016 and 5 September 2016, respectively.

TenneT TSO NL's tasks can be distinguished in system operation tasks, aimed at maintaining the balance of the Dutch electricity system and contributing to the maintenance of the balance of connected systems in Europe on the one hand, and the transmission task to provide non-discriminatory access to its networks on the basis of civil law contracts on the other. TenneT TSO NL's tasks are subject to published tariffs and conditions adopted by the ACM. Also on regional network operators rests the latter task in respect of their respective grids. Some of the tasks imposed on TenneT TSO NL are described in more detail in “*Description of the Issuer – Business – Dutch Regulated business*” below.

In December 2016, the Minister of Economic Affairs published a legislative proposal, which includes amendments to the Gas Act (*Gaswet*) and the Electricity Act (*wetsvoorstel 'Voortgang Energietransitie'*). The earliest date on which it could enter into force is 1 July 2017. The proposal intends to limit the scope of the activities that TenneT TSO NL is allowed to perform outside its statutory tasks as a TSO. In addition, it intends to limit the scope of the activities of other Group companies. The legislative proposal also offers TenneT TSO NL the possibility to enter into cross-participations with other TSO's.

### *Offshore grid*

In 2013, the Dutch government set goals in the National Energy Agreement to connect 3,450 megawatt (“MW”) of offshore wind energy to the grid by 2023. In its energy agenda from December 2016, the Dutch government announced that the plans for offshore wind will be extended after 2023, in accordance with existing practice.

In 2014, the Issuer presented a concept for connecting offshore wind in the Netherlands. This concept provides direct connection of offshore wind turbines to five newly designed standard TenneT 700 MW platforms. The offshore platforms will be connected to the onshore grid via 220 kV alternating current cable connections and may serve one or more offshore wind farms, thereby reducing the total number of required platforms. The platforms may also be used to connect wind farms further offshore through a “hubbing” technique that interconnects several offshore platforms. This requires a new platform design which will be used as standard for the currently foreseen five offshore TenneT platforms in the Dutch part of the North Sea.

Following the amendment of the Electricity Act on 1 April 2016, TenneT TSO NL has been certified and appointed as the sole offshore grid developer and operator in the Netherlands.

### ***German Electricity Grid Market***

The German electricity grid market is subject to a comprehensive regulatory regime governed by numerous acts and ordinances which are subject to constant modifications and amendments. The main pieces of legislation are the EnWG and certain ordinances, most notably the Ordinance on Access to the Electricity Supply Grid (*Stromnetzzugangsverordnung*, “**StromNZV**”), the StromNEV and the ARegV. BNetzA is the competent regulatory authority *vis-à-vis* TenneT TSO Germany. Main areas of regulation are grid access including grid access terms and conditions such as grid tariffs (subject to incentive regulation), grid connection, grid development and grid system services.

Similar to Dutch requirements, German electricity grid operators have to be unbundled from other business operations of a vertically integrated energy utility. In order to guarantee a transparent, non-discriminatory operation of the electricity grid, the EnWG not only provides for separate accounting but also for legal, operational and informational unbundling. In addition, based on the European Union’s third legislative energy law package (including the third Electricity EU Directive 2009/72/EC) and corresponding rules in the German statutory framework, TSOs are subject to ownership unbundling obligations. In this respect, TSOs have to be certified in order to ensure compliance with ownership unbundling requirements. TenneT TSO Germany was certified by BNetzA on 3 August 2015.

TenneT TSO Germany is under a general obligation to operate a safe, reliable and efficient transmission grid on a non-discriminatory basis. Furthermore, TenneT TSO Germany is required to maintain, develop and optimise its grid meeting the demands (*bedarfsgerechter Ausbau*) to the extent this is economically reasonable. To this effect, the four German electricity TSOs which operate control areas, namely TenneT TSO Germany, Amprion GmbH, 50Hertz Transmission GmbH and TransnetBW GmbH, are under an obligation to issue an (onshore) network development plan (*NEP*) and an offshore network development plan (*O-NEP*) every two years.

The NEP must include all measures required for an optimisation, reinforcement and expansion of the transmission grid necessary to meet transmission demands for the period of ten and fifteen years, respectively. Following a consultation process, the network development plan needs to be approved by BNetzA. On this basis, the federal requirement plan (*Bundesbedarfsplan*) is adopted by the German legislator at least every four years which shall be binding for the TSOs.

The O-NEP takes into account the federal offshore plan (*Bundesfachplan Offshore*) issued by the German Maritime and Hydrographic Agency (*Bundesamt für Seeschifffahrt und Hydrographie*). The O-NEP is aimed

at a more coordinated and harmonised planning of, but also an improved control of investments in and construction of OWF Connections in order to coordinate the expansion of the German offshore transmission grid. The draft offshore grid development plan 2025 was approved by BNetzA on 25 November 2016. As of 2025, the planning of the offshore grid development will exclusively be based on the (offshore) area development plan under the Offshore Wind Act (*Windenergie-auf-See-Gesetz*) which came into effect on 1 January 2017. Thus, the (offshore) area development plan will replace the current regime of federal offshore and offshore network development plans.

The extra high voltage grid in Germany (380 kV and 220 kV) is operated by the four abovementioned TSOs which have interconnected their transmission grids through national interconnector lines to form the German interconnected system (*Verbundnetz*). This interconnected system together with parts of Denmark, Luxembourg and Austria form the “German control block”.

Similar to TenneT TSO NL’s tasks, TenneT TSO Germany is required to maintain the balance of the German transmission grid system within its control area (*Regelzone*) and thereby contribute to the balancing of the interconnected systems in Europe. TenneT TSO Germany is not active in any downstream (distribution) grid operations. In addition, TenneT TSO Germany is required to grant third party access to its transmission grid on an economically reasonable, non-discriminatory and transparent basis. The German Incentive Regulation Ordinance (*Anreizregulierungsverordnung*) (the “**ARegV**”) provides for an incentive regulation framework which governs the allowed revenues from which grid access tariffs are consequently derived. This includes also the framework of so-called investment measures providing timely reimbursement, particularly for grid extension and grid restructuring measures such as OWF Connections. In September 2016, the ARegV was amended. Although the majority of the changes only apply to distribution grid operators, some changes equally affect TSOs or are TSO-specific. An example of the latter are the revised rules for determining replacement shares for investment measures which are not already applied for. Instead of applying a lump sum approach, these replacement shares must now be determined specifically for each individual project.

Further, TenneT TSO Germany is required to grant grid connections to grid users such as large industrial customers and power plants on a non-discriminatory basis. This includes the obligation to construct and operate OWF Connections necessary to connect OWFs in the North Sea to the German onshore electricity grid system.

Continuous investments in the (expansion of the) grid infrastructure as well as network-related or market-related measures are employed to avoid potential or to counter existing congestions in the transmission grid. Such measures include, *inter alia*, the competence to prohibit the permanently or temporarily decommission of electricity generation or storage facilities if such facilities are deemed “system-relevant”, and furthermore the application of so-called redispatch measures as well as congestion management measures. The legal framework applying to such measures and system services was amended in 2016 by the Electricity Market Act (*Strommarktgesetz*) including changes in particular in relation to redispatch measures and decommissioning of generation facilities (for details see “*Risk factors – Factors that may affect the Issuer’s ability to fulfil its obligations under the Securities – Impact of Dutch and German regulatory frameworks on revenue, profits and financial position of the Issuer – German regulatory framework*”).

### ***History of the Issuer***

Under the Electricity Act 1989 (*Elektriciteitswet 1989*), the operation and maintenance of the electricity transmission system in the Netherlands was based on a systemic cooperation between four vertically integrated electricity companies, owned by provinces and municipalities. The embodiment of this cooperation was N.V. Samenwerkende Elektriciteits-productiebedrijven (“**Sep**”). The four electricity companies were N.V. Elektriciteitsbedrijf Zuid-Holland, N.V. Elektriciteits-Productiemaatschappij Oost- en Noord-Nederland, N.V. Elektriciteits-Productiemaatschappij Zuid-Nederland and Energieproductiebedrijf UNA (together: the “**Sep**”).



**Shareholders**”). Each of the Sep Shareholders owned 25% of the shares in Sep. Sep owned 67% of the 220/380 kV grid as well as the cross-border interconnections. The remaining part of the 220/380 kV grid was owned by Sep Shareholders, but put at Sep’s disposal to enable it to manage the 220/380 kV grid in its entirety. On 28 April 1994, Sep incorporated Dutch Electricity Consulting Services B.V. (“**DELCO**”) as its 100% subsidiary. DELCO has undergone several name changes and is currently named TenneT Holding B.V.

In 1998, the Electricity Act entered into force. The Electricity Act created a legal basis for a gradual liberalisation of the electricity market (completed in July 2004). It furthermore compelled majority owners of the transmission and distribution electricity grids (therefore including Sep) to appoint separate legal entities as grid managers and to transfer to these legal entities the management of the grids. These entities were from then on exclusively charged with the fulfilment of statutory tasks relating to the operation, maintenance, renewal and extension of the grids.

For the 220/380 kV grid as well as the cross-border interconnections of 500 V and higher, the Electricity Act introduced the function of national grid manager. The national grid manager’s tasks include transmission system services, which means that it is the national TSO as well. As owner of 67% of the 220/380 kV grid, Sep was obliged to appoint the national grid manager. Sep appointed DELCO on 21 October 1998. Until that appointment, DELCO had not performed any holding activities or any other activities and was a subsidiary of Sep.

On the same date, Sep transferred the beneficial ownership of the 220/380 kV grid and of the cross-border connections of 500 V and higher (to the extent owned by Sep) to DELCO and granted DELCO an option to also request the legal ownership thereof. DELCO was renamed TenneT, Manager Landelijk Elektriciteitsnet B.V. on 21 October 1998 and renamed TenneT, Transmission System Operator B.V. (“**TenneT, Transmission System Operator**”) on 14 January 1999.

On 2 February 2001, a demerger of Sep (in the meantime renamed B.V. Nederlands Elektriciteit Administratiekantoor, “**NEA**”) was effectuated whereby Saranne B.V. (“**Saranne**”) was incorporated. At this occasion, NEA transferred its legal ownership of the 67% part of the 220/380 kV grid as well as of the cross-border interconnections of 500 V and higher to Saranne, leaving the option for TenneT, Transmission System Operator to request a transfer of the legal ownership to it intact. All shares in the capital of Saranne were issued to NEA. On 25 October 2001, NEA transferred all shares in TenneT, Transmission System Operator and all shares in Saranne to the State of the Netherlands.

On 18 December 2003, TenneT, Transmission System Operator acquired all shares in the capital of B.V. Transportnet Zuid-Holland (“**TZH**”), owning the entire 150 kV grid and part of the 380 kV in the province of Zuid-Holland. At the time TenneT neither owned nor managed any other 110 kV or 150 kV grid.

On 19 December 2005, TenneT, Transmission System Operator was converted into a holding company and renamed TenneT Holding B.V. The holding structure came into existence by way of a de-merger whereby TenneT TSO NL was incorporated. As a de-merged company, TenneT TSO NL obtained all assets of the Issuer, including the beneficial ownership of the 220/380 kV grid (with the exception of those parts that were still owned by the former Sep Shareholders or their legal successors) and the cross-border interconnections of 500 V and higher, as well as the shares in the capital of Saranne, TZH, TSO Auction B.V. (liquidated on 1 July 2013), EnerQ B.V. (“**EnerQ**”) and CertiQ B.V. (“**CertiQ**”) (see also “*Description of the Issuer – Business – Subsidiary overview – Dutch regulated activities*” below). EnerQ has been liquidated because of the fact that its activities have been transferred to SenterNovem (currently part of Agentschap NL, an Agency of the Dutch Ministry of Economic Affairs). The shares in the non-regulated activities (*i.e.* in APX Holding B.V. (the former APX B.V.), NLink International B.V., European Energy Auction B.V., New Values B.V. and

NOVEC B.V.) were subsequently transferred by separate deeds to the Issuer. European Energy Auction B.V., APX Holding B.V. and New Values B.V. do not form part of the Group anymore.

As beneficial owner of the majority of the 220/380 kV grid, TenneT TSO NL appointed itself as manager of the 220/380 kV grid and the 150 kV grid in the province of South-Holland, replacing TenneT, Transmission System Operator B.V., which had become TenneT Holding B.V. The Minister of Economic Affairs has given the requisite statutory approval for this appointment. An appointment lasts ten years (from the date of the approval by the Minister of Economic Affairs). By decision of 18 December 2013, the ACM has certified TenneT TSO NL as transmission system operator.

As a result of the legal restructuring in December 2005, the Dutch regulated business of national grid manager and national transmission system operator is now being performed by TenneT TSO NL. The current unregulated business (mainly focusing on electricity spot market and clearing activities (through an indirect shareholding in EPEX Spot SE (“EPEX”) and its subsidiaries, and a minority stake in Holding des Gestionnaires de Réseau de Transport d’Électricité S.A.S. (“HGRT”), telecom activities (NOVEC B.V. and Relined B.V. and their respective subsidiaries) and submarine cables (NLink International B.V.)) are being performed by other subsidiaries or participations of the Issuer. These unregulated activities are not allowed to conflict with the activities of TenneT TSO NL (see also “*Description of the Issuer – Business – Subsidiary overview – unregulated activities*” below).

In November 2006, an amendment to the Electricity Act was enacted pursuant to which the “national electricity (extra) high voltage grid” – which pursuant to the Electricity Act is to be managed by the national grid manager – has been redefined so as to include the 110 kV and 150 kV grids in addition to the 220 kV and 380 kV grids and the cross-border interconnections of 500 V and higher. This amendment entered into force on 1 January 2008. As a consequence, TenneT TSO NL, being the legally appointed national grid manager of the national electricity (extra) high voltage grid, from 1 January 2008 had to take over the management of the 110 kV and 150 kV grids from the relevant regional grid managers. An exception applies for the time being to the 150 kV “Randmeren” grid, managed by Liander N.V. (and sub managed by TenneT TSO NL further to a sub management agreement which entered into force on 1 August 2009). This exception applies because no satisfactory solution has been reached with regards to third parties’ rights under cross-border lease transactions to which these grids are subject. In 2009, TenneT TSO NL acquired the high voltage grids still owned by Enexis B.V., Liander N.V. and Delta N.V. In 2015, TenneT TSO NL acquired the 150 kV grid formerly owned by Stedin B.V. TenneT TSO NL at the moment owns all of the national electricity grids of 110 kV and higher (excluding the 150 kV “Randmeren” grid still owned by or through Liander N.V. and certain exemption holders) and has a legal monopoly with respect to the management of the National HV Grid on the basis of the Electricity Act. The maintenance of the grids is performed by joint ventures that TenneT TSO NL entered into with Delta (TeslaN B.V.), Stedin (TensZ B.V.) and Liander (Reddyn B.V.). TenneT TSO NL also manages and directly owns the cross-border interconnectors with alternating current and has a 50 per cent interest in the NorNed Cable.

In July 2012, in order to implement the third Electricity EU Directive (2009/72/EC), an amendment to the Electricity Act was enacted pursuant to which the “national electricity (extra) high voltage grid” was redefined, including the cross-border interconnections with alternating current (AC) (hereinafter together defined as the “**National HV Grid**”). A separate definition for managers of interconnectors, *i.e.* cross-border interconnections with direct current, has furthermore been introduced.

The Issuer indirectly wholly owns the subsidiary transpower GmbH & Co. KG (subsequently renamed TenneT GmbH & Co KG), a limited partnership (*Kommanditgesellschaft*) organised under the laws of Germany, acquired from E.ON AG, with economic effect as of 1 January 2010, all of the issued and outstanding shares of the German extra high voltage grid operator transpower stromübertragungs GmbH (subsequently renamed TenneT TSO GmbH), a limited liability company (*Gesellschaft mit beschränkter*

*Haftung*) organised under the laws of Germany, as well as, indirectly, all of the issued and outstanding shares of Transpower Offshore GmbH (which subsequently became a sister company of TenneT TSO GmbH and was renamed TenneT Offshore GmbH), at the time a wholly-owned subsidiary of Transpower Stromübertragungs GmbH organised as a limited liability company (*Gesellschaft mit beschränkter Haftung*) under the laws of Germany (the “**Acquisition**”).

The Acquisition has enabled the Issuer to integrate the Dutch and (part of) the German extra high voltage transmission grids, allowing it, in the opinion of the Issuer, to take a leading role in Europe and to continue developing an effectively functioning electricity market. The benefits of the Acquisition for the Issuer include price equalisation, improved grid balancing, greater insight into grid situations, better possibilities for sustainable development in both countries and certain cost synergies.

In December 2012, the Issuer and Mitsubishi Corporation concluded their partnership with respect to two OWF Connections, BorWin1 and BorWin2. In that perspective, Mitsubishi Corporation acquired 49% of the voting interest and 69% of the economic interest in the German special purpose vehicle TenneT Offshore 2. Beteiligungsgesellschaft mbH. In April 2013, Mitsubishi Corporation acquired two further OWF Connections, HelWin2 and DolWin2. In that perspective Mitsubishi Corporation acquired 49% of the voting interest and 63% of the economic interest in the German special purpose vehicle TenneT Offshore 8. Beteiligungsgesellschaft mbH. While the commissioning of DolWin2 was originally planned in 2015, the OWF Connection DolWin2 encountered technical difficulties with the sea and land cables. The issue was analysed with the supplier and the connection is fully operational since the beginning of 2017. Mitigation measures and respective financial consequences are currently being evaluated. In February 2014, the Issuer and Copenhagen Infrastructure Partners (“**CIP**”) agreed on a joint investment in the offshore grid connection DolWin3. In that perspective CIP acquired 49% of the voting interest and respectively 62% and 67% of the economic interest (adjusted for certain regulatory effects) in the German special purpose vehicle TenneT Offshore DolWin3 Beteiligungsgesellschaft GmbH & Co. KG and TenneT Offshore DolWin3 Verwaltungs GmbH.

In May 2015, TenneT exchanged all its shares (70.8%) in APX Holding B.V. for new shares in EPEX. Subsequently, TenneT contributed these EPEX shares to HGRT in exchange for newly issued ordinary shares in HGRT. HGRT holds a 49% interest in EPEX which is the 100% owner of EPEX and APX Holding B.V., together forming the exchange platform for the power spot market in France, Germany, Austria, Switzerland, Netherlands, Belgium and the United Kingdom.

In July 2015, TenneT TSO Germany acquired a 100% stake in the Netz Veltheim GmbH which merged with TenneT TSO Germany retrospectively with effect as of 1 January 2015.

In 2015, partner companies StatnetSF, KfW and TenneT TSO Germany made a final investment decision to establish an interconnector between Norway and Germany under the project name “NordLink” and construction started in 2016. Ownership of the interconnector is equally split between KfW and TenneT Germany owning the Southern part through a jointly owned company and Statnett SF owning the Northern part through a wholly-owned Norwegian company.

## **Corporate Governance**

The Dutch Corporate Governance Code (the “**Corporate Governance Code**”) applies to listed companies. The Issuer, even though not a listed company, decided to comply with the Corporate Governance Code for the sake of transparency. Also, the State, as sole shareholder of the Issuer, set out in the Policy on Government Participations 2013 that it expects the Issuer to comply with the Corporate Governance Code or to explain, where applicable, why the Issuer does not comply with the relevant best-practices thereof.

In light of the above, a large number of the principles of the Corporate Governance Code have been integrated in the corporate governance structure of the Issuer and the Issuer complies with most provisions of the Code. In each annual report, the Issuer explains why certain principles and best-practice provision of the Corporate Governance Code do not apply to the Issuer or why and to what extent the Issuer decided not to adopt the principles and best practice provisions. More information on the Issuer's corporate governance arrangements can be found on its website: (<http://www.tennet.eu/nl/nl/corporate-governance.html>).

The Issuer is structured as a large company (*structuurvennootschap*) within the meaning of Section 2:264 Dutch Civil Code. The Issuer complies with the "large company regime" (*structuurregime*). The Issuer complies with the obligations regarding the corporate governance structure as provided for in the Electricity Act. The Issuer has a statutory management board (*raad van bestuur*, the "**Management Board**"). In accordance with the large company regime, the Issuer has a supervisory board (*raad van commissarissen*, the "**Supervisory Board**"). For certain decisions the Management Board requires prior approval of the Supervisory Board. Also, for certain decisions, the prior approval of the general meeting of shareholders is necessary. In practice, this means that, the Issuer's only shareholder, the State, represented by the Ministry of Finance, must approve certain decisions, including, but not limited to, decisions relating to significant investments, a major change in the identity or nature of the Issuer or its enterprises, and the entering into and termination of important joint ventures. In addition, the general meeting of shareholders can, *inter alia*, amend the Issuer's articles of association and appoint the members of the Management Board and Supervisory Board, subject to the conditions and procedures laid down in the Issuer's articles of association.

## Management Board and Executive Board

The members of the Issuer's Management Board are as follows:

Name	Position	Positions outside the Issuer
Mr J.M. (Mel) Kroon	Chair Executive Board and Chief Executive Officer	Chair Supervisory Board ( <i>Aufsichtsrat</i> ) of TenneT TSO GmbH Member Board of TenneT Verwaltungs GmbH Chair Supervisory Board of NOVEC B.V. Member Board of Stichting Beheer Doelgeden Landelijk Hoogspanningsnet Member Supervisory Board EPEX Spot S.E. Member Supervisory Board of the Havenbedrijf Rotterdam N.V. Member Board of the Dutch-German Chamber of Commerce Member Supervisory Board of Coöperatie VGZ Member Supervisory Board Ivy Infrastructure TopCo B.V.
Mr U.T.V. (Urban) Keussen	Vice-chair Executive Board	Chair Board of TenneT TSO GmbH Member Board of TenneT Verwaltungs GmbH

<b>Name</b>	<b>Position</b>	<b>Positions outside the Issuer</b>
		Member assembly ENTSO-E
Mr B.G.M. (Ben) Voorhorst	Chief Operating Officer	Member Board of TenneT TSO B.V. Member Supervisory Board of NOVEC B.V. Member Board of the Dutch association Netbeheer Nederland Member Cyber Security Council Member Executive Committee of the Dutch Association for Energy Data Exchange (NEDU) Vice-chair Board (until 1 July 2017) and President (from 1 July 2017) ENTSO-E Member Cooperation Board TSCNET Service GmbH
Mr O. (Otto) Jager	Chief Financial Officer	Member Board of TenneT TSO B.V. Member Supervisory Board ( <i>Aufsichtsrat</i> ) of TenneT TSO GmbH

The Issuer's executive board (*directie*, the "**Executive Board**"), in charge of the day-to-day management, is formed by the four members of the Management Board (see above), together with:

<b>Name</b>	<b>Position</b>	<b>Positions outside the Issuer</b>
Mr A.A. (Lex) Hartman	Director Corporate Development	Chair Board of BritNed Development Ltd Member Board of TenneT TSO GmbH Member Board of FLOW-Far and Large Offshore Wind Director of NLink International B.V.
Mr W. (Wilfried) Breuer	Director Offshore	Member Board TenneT Offshore GmbH Member of Cigre German Committee Member of FGH-Verwaltungsrat

The Issuer's registered address serves as the business address for each member of the Management Board and the Executive Board. See "*Description of the Issuer – Introduction*" above.

There are no existing or potential conflicts of interest between the duties of each of the members of the Management Board and the Executive Board and his private interest and/or other duties. The Issuer notes that Mr Kroon is ordinary member of the Supervisory Board of Port of Rotterdam. TenneT has a ground lease

agreement with Port of Rotterdam. Mr Kroon was not involved in the negotiations and neither in the decision making process for this lease agreement.

## Supervisory Board

The members of the Supervisory Board of the Issuer are as follows:

<b>Name</b>	<b>Position</b>	<b>Positions outside the Issuer</b>
Mr A.W. (Aad) Veenman	Chair	Member Supervisory Board of Achmea B.V. Chair of Economic Cluster Logistics
Mr P.M. (Pieter) Verboom	Vice chair	Member of the (deputy) Enterprise Division of the Amsterdam Court of Appeal ( <i>Ondernemingskamer</i> ) Chair Curatorium Master Register Controllers and Advisor Programme “The new CFO” (Erasmus University Rotterdam) Member of the Advisory Board of NIBC’s Merchant Banking
Mr J.L.M. (Hans) Fischer	Member	Chief Executive Officer of Tata Steel Europe Ltd. Member Management Board of the Dutch-German Chamber of Commerce Member Management Board of Steel Institute VDEh Chair Management Board of FOSTA - Forschungsvereinigung Stahlanwendung e. V. Member of Amsterdam Economic Board
Ms S. (Stephanie) Hottenhuis	Member	Member Executive Board of ARCADIS N.V.
Mr R.G.M (Rien) Zwitserloot	Member	Member Supervisory Board ( <i>Aufsichtsrat</i> ) of TenneT TSO GmbH Member Supervisory Board of Royal VOPAK N.V. Member Supervisory Board of Amsterdam Capital Trading Group B.V. Member Supervisory Board of Vroon B.V.
Ms L.J. (Laetitia) Griffith	Member	Vice-Chair Supervisory Board of KPMG N.V. Member Supervisory Board of Holding Nationale Goede Doelen Loterij N.V.

Name	Position	Positions outside the Issuer
		Chair of De Nederlandse Veiligheidsbranche
		Member Board of Vereniging VNO-NCW
		Member Board of Stichting Staetshuys Fonds
		Chair of Stichting Vrienden van de Nederlandse Bachvereniging
		Chamberlain Stichting Hollandse Haringpartij
		Member Board of Nederlands Filmfonds

The Issuer’s registered address serves as the business address for each member of the Supervisory Board. See “*Description of the Issuer – Introduction*” above.

There are no existing or potential conflicts of interest between the duties of each of the members of the Supervisory Board of the Issuer and his private interest and/or other duties. The Issuer notes that:

- Mr Fischer is Chief Executive Officer and a member of the Board of Tata Steel Europe. Tata Steel is one of the Issuer’s customers. Mr Fischer has not been involved in any commercial dealings between Tata Steel and TenneT. Contract reviews, negotiations or awards between the two companies were conducted at the appropriate business levels and in the ordinary course of business. In 2016, Tata started proceedings against TenneT at the ACM. Mr Fischer is not involved in these proceedings.
- Ms Hottenhuis is a member of the Executive Board of ARCADIS N.V. ARCADIS N.V. is one of TenneT’s suppliers. Ms Hottenhuis has not been involved in any business dealings between ARCADIS N.V. and TenneT. Contract reviews, negotiations and awards between the two companies were conducted at the appropriate business levels and in the ordinary course of business.

The Supervisory Board has installed an Audit, Risk and Compliance Committee (the “**Audit Committee**”). The Supervisory Board has appointed Mr P.M. Verboom (chair) and Mr A.W. Veenman to form the Audit Committee. The Audit Committee’s tasks include overseeing the (quality of the) Issuer’s financial reporting, its financial reporting policy and procedures, the (quality of the) internal risk management and control systems, and the independent external audit of the financial statements. The duties of the Audit Committee are set out in the Audit Committee regulations, which can be found on the Issuer’s website ([www.tennet.eu](http://www.tennet.eu)).

The Supervisory Board has appointed Ms S. Hottenhuis (chair), Mr A.W. Veenman and Ms L.J. Griffith to form the remuneration and appointments committee (the “**Remuneration Committee**”). The Remuneration Committee is charged with making proposals concerning the remuneration policy to be pursued, the remuneration of individual board members and the preparation of a remuneration report. The Remuneration Committee also defines criteria for the appointment of board members and supervises the procedure for the appointment of new board members. The duties of the Remuneration Committee are set out in the Remuneration Committee regulations which can be found on the Issuer’s official website ([www.tennet.eu](http://www.tennet.eu)).

The Supervisory Board has installed a Strategic Investment Committee (the “**SIC**”). The Supervisory Board has appointed Mr J.L.M. Fischer and Mr R.G.M. Zwitterloot to form the SIC. The SIC advises the Supervisory Board regarding strategic investments and prepares decision making of the Supervisory Board. The SIC examines whether investment submissions of the Management Board fit into the economic, financial and technical goals of TenneT. The duties of the SIC are set out in the SIC regulations which can be found on the Issuer’s official website ([www.tennet.eu](http://www.tennet.eu)).

## Business

The Group performs regulated activities in the Netherlands and Germany and unregulated activities in a number of North-western European countries.

A map of the 110/150 kV and 220/380 kV grids managed by TenneT TSO NL and the 220/380 kV grids managed by TenneT TSO Germany is reproduced in the following figure.





### *Dutch regulated activities*

Within the Group, TenneT TSO NL and its subsidiaries carry out the activities that are regulated under the Electricity Act. According to the Electricity Act, the activities of the other subsidiaries and participations of the Issuer, which perform the unregulated activities within the Group, may not conflict with the regulated activities.

The activities of TenneT TSO NL's subsidiaries are discussed in “*Description of the Issuer – Business – Subsidiary overview – Dutch regulated activities*” below. The principal activities of TenneT TSO NL are:

- (I) to provide onshore and offshore grid connections to the National HV Grid;
- (II) to provide onshore and offshore transmission services;
- (III) to provide onshore and offshore system services;
- (IV) to manage the cross-border interconnections and
- (V) to provide connection to and take-off energy produced by OWFs.

### *Grid connection*

TenneT TSO NL must provide physical connection to the National HV Grid to final customers, to distribution grids and lines as well as conventional and renewable energy generation facilities at technical and economic conditions that are reasonable, non-discriminatory, and transparent. TenneT TSO NL must also grant third-party access to its grid on an economically reasonable, non-discriminatory and transparent basis. Grid connection is granted in accordance with binding conditions and tariffs adopted by the ACM pursuant to EC Regulation no. 714/2009 and the Electricity Act (regulated third party access).

### *Transmission services*

Under the Dutch regulatory framework, TenneT TSO NL must operate a safe, reliable and efficient transmission over the National HV Grid on a non-discriminatory basis. TenneT TSO NL is responsible for repairing, replacing parts of and expanding its networks and ensuring appropriate transmission capacity and reliability of the grid system at all times.

### *System services*

The principal system service is the continuous balancing of demand and supply through the deployment of automatic response power and reserve capacity services for onshore and offshore networks, including market facilitation. In order to continuously balance demand and supply of electricity, TenneT TSO NL primarily relies on the use of different types of control energy. TenneT TSO NL procures energy to compensate for grid losses resulting from the transmission of electricity through its transmission grid system.

### *Management of cross-border interconnections*

TenneT TSO NL is exclusively charged with the management of cross-border interconnections with alternating current. The management includes applying non-discriminatory and transparent transfer capacity allocation mechanisms as prescribed by the EC Electricity Regulations (EC Regulations no. 96/92, 2003/54 and 2009/72), the Electricity Act and implementing regulations. These mechanisms include the auctions performed by Joint Allocation Office S.A. (“**JAO**”). JAO is a joint service company of twenty Transmission System Operators in seventeen countries. JAO's principle activity is facilitating the yearly, monthly and daily auctions of transmission rights between 27 countries in Europe and acting as a fall-back for the coupling of the electricity markets in Europe. Furthermore, TenneT TSO NL operates the so-called NorNed Cable, an interconnector with direct current between Norway and the Netherlands. Also, TenneT TSO NL currently – together with the Danish TSO Energinet.dk – constructs a 700 MW HVDC interconnector between the

Netherlands and Denmark (the “**COBRACable**”). Landing points for the approximately 350 kilometres long subsea cable will be in Endrup (Denmark) and Eemshaven (Netherlands). Provided that all licenses will be awarded in time and suppliers have the necessary production capacity to construct this interconnector, the COBRACable is scheduled to be in operation in 2019. Each of the two TSOs has a 50 per cent. stake in the COBRACable project.

#### *Connection to and take-off of energy produced by OWFs*

TenneT TSO must construct platforms to connect offshore wind farms, in accordance with a development framework determined by the Ministry of Economic Affairs. A failure to comply with the obligation to timely construct and operate OWF connections might result in claims for damages by the respective operators of OWFs. However, the Electricity Act reduces such liability risks significantly. Any liability of TenneT TSO NL as offshore system operator to electricity producers can be recouped through future tariffs, including any liability for simple negligence, and liability for gross negligence exceeding EUR 10 million a year. In principle, TenneT TSO NL must bear the costs relating to the construction of the grid connection. However, the costs resulting from such investments will be recouped through subsidies from the State or, if the investments cannot be recouped from the subsidy, through the onshore tariffs.

#### *German regulated activities*

The principal regulated activities of TenneT TSO Germany as one of the four TSO’s in Germany are:

- (a) to provide onshore and offshore grid connections;
- (b) to provide onshore and offshore transmission services;
- (c) to provide onshore and offshore system services;
- (d) to manage the cross-border interconnections;
- (e) to provide preferential grid connection to and take off electricity produced from renewable energy sources or cogeneration plants; and
- (f) to provide connection to and take-off energy produced by OWFs.

#### *Grid connection*

Operators of high voltage electricity grids in Germany are obligated to provide physical connection to their grid to final customers, to same level or downstream electricity supply grids, lines as well as conventional and renewable energy generation facilities at technical and economic conditions that are reasonable, non-discriminatory, and transparent. In this respect, renewable energy facilities may have to be given priority in the event of congestion. In addition and in accordance with regulated third-party rules, TenneT TSO Germany must also grant third-party access to their grid on an economically reasonable, non-discriminatory and transparent basis.

#### *Transmission services*

Under the German regulatory framework, TenneT TSO Germany is obliged to operate a safe, reliable and efficient transmission grid on a non-discriminatory basis. TenneT TSO Germany is required to maintain, develop and optimise its grid meeting these demands (*bedarfsgerechter Ausbau*) to the extent this is economically reasonable. In particular, the transmission grid system operators need to contribute to supply security through ensuring appropriate transmission capacity and reliability of the grid system.

### *System services*

In order to continuously balance demand and supply of electricity, TenneT TSO Germany primarily relies on the use of different types of control energy (primary, secondary and tertiary control energy) and redispatch measures. The procurement of control energy by way of tenders is regulated by BNetzA. Insofar, BNetzA has obligated the four German electricity TSOs to establish a single control area comprising all four transmission grid systems. This control area is designed to allow for imbalances of each transmission system to be compensated and balanced between the domestic transmission grid systems. The procurement of secondary control energy by way of tenders must be conducted through procedure joint process involving the entire control area. In addition, TenneT TSO Germany procures energy to compensate for grid losses resulting from the transmission of electricity through its transmission grid system.

### *Management of cross-border interconnections*

TenneT TSO Germany operates a number of cross-border interconnections to the Netherlands as well as Denmark, Sweden, Austria and the Czech Republic. Their management involves non-discriminatory and transparent transfer capacity allocation mechanisms under the EnWG and pertinent European legislation. To this end and similar to TenneT TSO NL, TenneT TSO Germany holds a (minority) participation in JAO S.A. for the area of Central West Europe (providing for auctions on a monthly and yearly basis) and also holds a (minority) participation in the “European Market Coupling Company” for the area of Northern Europe (providing for market coupling).

### *Preferential grid connection to and take-off of electricity produced from renewable energy sources or cogeneration plants*

With regard to electricity generated from renewable energy sources, grid operators are under the statutory obligation to immediately optimise, strengthen and expand their grid upon request and as far as economically reasonable to ensure the purchase, transmission and distribution of electricity generated by renewable energies. In addition, grid operators are regulated to provide preferential treatment to electricity produced by renewable energy sources or cogeneration plants over fossil-fuel electricity generation.

### *Connection to and take-off of energy produced by OWFs*

In addition, TenneT TSO Germany is obliged to connect OWFs to its transmission grid. To fulfil this obligation transpower offshore GmbH was founded (renamed in TenneT Offshore Germany). TenneT Offshore Germany has carved out, OWF Connections into special purpose vehicles in order to sell equity interests in these entities. A failure to comply with the obligation to timely construct and operate OWF Connections might result in claims for damages by the respective operators of OWFs. However, the amended legal framework effective as of 28 December 2012 reduces such liability risks significantly (for details see above under “*Risk factors – Factors that may affect the Issuer’s ability to fulfil its obligations under the Securities – German regulatory framework – Connection of offshore wind farms*”). In principle, TenneT TSO Germany must bear the costs relating to the construction of the grid connection. However, the costs resulting from such investments will be recouped through tariff income to the extent these costs are approved by BNetzA under investment measures. In addition, a horizontal cost balancing scheme between the four German TSOs applies. This scheme has been amended in order to include the aforementioned separate project entities (in which TenneT Offshore Germany holds the controlling interest), which function as a single-line TSOs (so-called “TSO light”).

### ***Unregulated activities***

The unregulated activities of the Group are performed by subsidiaries (excluding TenneT TSO NL, TenneT TSO Germany and their subsidiaries) directly owned by the Issuer and their subsidiaries and participations. The aim of these activities is to support the energy and telecommunication sectors and to ensure their efficient

operation. The Issuer employs unambiguous criteria for the selection of new activities. Only activities that support the improvement of the transparency and efficiency of the Dutch energy or telecommunication market, or that support the sustainability and supply of energy are pursued. Furthermore, according to the Electricity Act these activities must not put the statutory tasks of TenneT TSO NL at risk or conflict with the quality and independence of TenneT TSO NL.

The principal unregulated activities of the Group are:

- (I) to facilitate spot, short-term and long-term trading in electricity (see the description of HGRT and ETPA Holding B.V. in “*Description of the Issuer – Business – Subsidiary overview – unregulated activities*”);
- (II) to manage and operate a commercially operated interconnector between the Netherlands and the United Kingdom (see the description of NLink International B.V. in “*Description of the Issuer – Business – Subsidiary overview – unregulated activities*”); and
- (III) to facilitate distribution of radio and TV signals via the air and for telecom purposes (see the descriptions of NOVEC B.V. and Relined B.V. in “*Description of the Issuer – Business – Subsidiary Overview – unregulated activities*”).

### **Strategy**

As the TSO for the Netherlands and a large part of Germany, as well as the first cross-border TSO for Europe, the Issuer plays a pivotal role in a sector that affects society at many levels. The Issuer’s mission as a leading TSO is to create stakeholder value by providing security of electricity supply in the markets the Issuer serves and by pursuing the development of an integrated and sustainable NWE electricity market.

Following this mission, the Issuer’s overarching goal is to deliver value for its stakeholders. The Issuer aims to do this by pursuing the following strategic goals:

- securing a reliable supply of electricity and facilitating the integration of sustainable energy;
- leading the development of an integrated and sustainable NWE electricity market;
- engaging with our stakeholders – our employees, our shareholder, regulators, policymakers, customers, suppliers, media, non-governmental organisations and local communities; and
- innovating and adapting our business for the future.

The Issuer has selected seven strategic priorities to realise the strategic goals. They rank in no specific order of importance.

- *Enhance the flexibility and resilience of our transmission grid to ensure security of supply*

To manage the rapid rise of renewable energy sources, improve the ability to balance power, ensure continuous voltage control and relieve grid congestion, the Issuer applies market-based solutions that improve supply and demand flexibility. The Issuer will also use software and possibly hardware solutions, such as developing storage technology.

- *Advance the use of data and analytics*

To gain insight into the renewables load feeding into the grid and improve forecasting to ensure security of supply, the Issuer is collecting and enriching electricity and electricity-related data, which will also help the Issuer to drive market integration.

- *Drive integration of the NWE electricity market, focusing on the Netherlands, Germany and Belgium*  
The Issuer works closely with other TSOs on various topics, including market design, market coupling and regional security centres, to drive further integration of the NWE electricity market.
- *Anticipate and address what society wants and needs through dialogue and innovation*  
The Issuer actively engages with society and responds to society's needs and concerns with innovative developments such as transmitting electricity underground, dynamic line rating and high temperature super conductors.
- *Maintain access to capital markets and equity capital*  
The size of the Issuer's investment programme requires ongoing financing and, given the regulatory uncertainties, also required flexible access to equity.
- *Pursue operational excellence*  
The Issuer maximises capital expenditure and operational expenditure efficiency through smart investment solutions and keeping operating costs low.
- *Pursue organisational excellence*  
The Issuer does this through creating a performance culture, organisational flexibility and best-in-class safety performance.

### ***Subsidiary overview – Dutch regulated activities***

#### *TenneT TSO NL*

TenneT TSO NL is the Dutch national electricity transmission system operator for both the onshore and offshore grid. TenneT TSO NL's tasks include maintaining the security of supply and promoting the production of electricity from sustainable sources. In addition, TenneT TSO NL is responsible for market integration, ensuring stable prices and energy flows. The activities of TenneT TSO NL are described in more detail under the heading "*Dutch regulated activities*" above.

Since the State is the sole shareholder of the Issuer, and TenneT TSO NL is wholly-owned by the Issuer, TenneT TSO NL is indirectly wholly-owned by the State. The Electricity Act provides that 100% of the shares of the grid administrator of the national electricity grid of the Netherlands must be directly or indirectly owned by the State of the Netherlands. A change of the Electricity Act would be necessary, and therefore a parliamentary vote required, for a transfer, directly or indirectly, of the shares in TenneT TSO NL, as long as TenneT TSO NL is administrator of the National HV Grid.

TenneT TSO NL has the following subsidiaries:

#### *HS Netten Zeeland B.V.*

HS Netten Zeeland B.V. was incorporated in 2009. HS Netten Zeeland B.V. owns the 150 kV grid and part of the 380 kV grid in the province of Zeeland acquired from Delta N.V. Being part of the National HV Grid, these grids are managed by TenneT TSO NL. Through its 100% shareholding in HS Netten Zeeland B.V., TenneT TSO NL has full control over the assets owned by HS Netten Zeeland B.V. The Issuer plans to merge HS Netten Zeeland B.V. into TenneT TSO B.V. in 2017.

#### *TenneT TSO E B.V.*

TenneT TSO E B.V. (formerly Essent Netwerk Hoogspanningsnetten B.V.) was incorporated in 2008. TenneT TSO E B.V. owns the 110/150 kV and 220/380 kV grids acquired from Enexis B.V. Being part of the National

HV Grid, these grids are managed by TenneT TSO NL. Through its 100% shareholding in TenneT TSO E B.V., TenneT TSO NL has full control over the assets owned by TenneT TSO E B.V. The Issuer plans to merge TenneT TSO E B.V. into TenneT TSO B.V. in 2017.

#### *Nadine Netwerk B.V.*

Nadine Netwerk B.V. was incorporated in 2008. Nadine Netwerk B.V. owns the 110/150 kV and 220/380 kV grids acquired from Liander N.V. Being part of the National HV Grid, these grids are managed by TenneT TSO NL. Through its 100% shareholding in Nadine Netwerk B.V., TenneT TSO NL has full control over the assets owned by Nadine Netwerk B.V. The 150 kV grid, subject to a cross border lease, was not acquired by Nadine Netwerk B.V. from Liander N.V. TenneT TSO NL has concluded a sub management agreement with Liander N.V. with respect to this grid.

#### *B.V. Transportnet Zuid-Holland (“TZH”)*

TZH was incorporated in 1999. The shares in the capital of TZH were acquired by TenneT, Transmission System Operator B.V. in 2003 and were transferred to TenneT TSO NL as part of the de-merger in December 2005 (see “*Description of the Issuer – History*” above). TZH owns the 150 kV grid and part of the 380 kV grid in the province of Zuid-Holland. Being part of the National HV Grid, these grids are managed by TenneT TSO NL. Through its 100% shareholding in TZH, TenneT TSO NL has full control over the assets owned by TZH. As of 1 January 2015, TZH also owns the Dordrecht and Rotterdam 150 kV grid formerly owned and managed by Stedin B.V.

#### *Reddyn B.V.*

Reddyn B.V. was incorporated by TenneT TSO NL and Liander N.V. in 2011, which both hold a 50% interest in the company. Reddyn B.V. is a joint service provider that works for TenneT TSO NL and Liander N.V. exclusively. It provides the construction, management, maintenance and fault-clearing service for high-voltage and (complex) mid-voltage assets of the present and former (110/150 kV) Liander grids.

#### *TeslaN B.V.*

TeslaN B.V. was incorporated by TenneT TSO NL and Delta Netwerkbedrijf B.V. in 2015, which both hold a 50% interest in the company. TeslaN B.V. is a joint service provider that works for TenneT TSO NL and Delta Netwerkbedrijf B.V. exclusively. It provides the maintenance and fault-clearing service for high-voltage and (complex) mid-voltage assets of the present and former (150 kV) Delta grid.

#### *TensZ B.V.*

Tensz B.V. was incorporated by TenneT TSO NL and Stedin Netbeheer B.V. in 2015, which both hold a 50% interest in the company. TensZ B.V. is a joint service provider that works for TenneT TSO NL and Stedin Netbeheer B.V. exclusively. It provides the maintenance and fault-clearing service for high-voltage and (complex) mid-voltage assets of the present and former (150 kV) Stedin grid.

#### *CertiQ B.V.*

CertiQ B.V. (formerly named Groencertificatenregister B.V.) was incorporated by TenneT, Transmission System Operator B.V. in 2001. The shares in the capital of CertiQ B.V. were transferred to TenneT TSO NL as part of the de-merger in December 2005 (see “*Description of the Issuer – History*” above).

CertiQ B.V. issues guarantees of origin as proof that volumes of electricity exported to the grid have been generated in a sustainable way or by means of high efficiency combined heat and power (“CHP”) plants. The guarantees of origin take the form of electric registrations in an electronic account in the name of the relevant account holder. Guarantees of origin are tradable. Their validity expires one year after their first registration. Investments in sustainable energy capacity (or high efficient CHP plants) qualify for feed-in subsidies from the Dutch government under the Promotion of Sustainable Energy Production (*Stimuleren Duurzame*

*Energieproductie*, “SDE”) grant scheme provided the sustainable quality of production is evidenced by guarantees of origin. As of 1 January 2015, pursuant to the Electricity Act and the Dutch Heating Supply Act (*Warmtewet*), the Minister of Economic Affairs has been charged with the issuance of guarantees of origin and has the authority to delegate its powers to a non-subordinated party. As of 2 January 2015, the National HV Grid manager (*i.e.* TenneT TSO NL), in its capacity as managing director of CertiQ B.V., has been delegated the respective power.

#### *Saranne B.V.*

Saranne B.V. was incorporated in 2001 upon the consummation of the de-merger of Sep (see “*Description of the Issuer – History*” above). Saranne B.V. is legal owner of the 220/380 kV grid formerly owned by Sep. TenneT TSO NL is the beneficial owner of these grids (see “*Description of the Issuer – History*” above) and, through its 100% shareholding in Saranne B.V. (see “*Description of the Issuer – Capitalisation and Group Structure*” and “*– History*” above), indirectly has full legal ownership.

In addition to these subsidiaries, TenneT TSO NL holds the following non-controlling interests:

- JAO S.A.: 5% (see also “*Description of the Issuer – Business – Dutch Regulated business*” above).
- Energie Data Services Nederland (EDSN) B.V.: 12.5% plus one share. The remaining shares are held by N.V. Nederlandse Gasunie (12.5% plus one share), Liander 17% and by other regional gas and electricity grid administrators.
- TSCNET Services GmbH: 7.7%. The remaining shares are held by 50Hertz Transmission GmbH, Amprion GmbH, Austrian Power Grid AG, ČEPS a.s., ELES Electro-Slovenija d.o.o., Croatian Transmission System Operator Ltd., Swissgrid AG, TenneT TSO Germany, TransnetBW GmbH, Energinet.DK, PSE S.A. and MAVIR ZRt.

#### *Stichting Beheer Doelgelden Landelijk Hoogspanningsnet*

Stichting Beheer Doelgelden Landelijk Hoogspanningsnet (“**Stichting Beheer Doelgelden**”) is a foundation established under Dutch law for the management of the “allocated funds” received from TenneT TSO NL in its capacity as administrator of the National HV Grid. These allocated funds comprise proceeds of imbalance settlements (see the description of the “system services” of TenneT TSO NL in “*Description of the Issuer – Business – Dutch Regulated business*” above) and proceeds that TenneT TSO NL receives from market-based allocation of cross-border electricity transfer capacity (including proceeds from explicit or implicit auctions of interconnector capacity). TenneT TSO NL is not allowed to use the allocated funds for other objectives than set forth in Regulation 1228/2003/EC and the Electricity Act. According to the relevant “*bevoegdhedenovereenkomst*” with the ACM funds of Stichting Beheer Doelgelden will be used for tariff reductions.

In 2010, Stichting Beheer Doelgelden participated in the acquisition of transpower stromübertragungs GmbH. The Stichting Beheer Doelgelden contributed EUR 375,000,000 and obtained 2,000 Class B shares in TenneT TSO Duitsland B.V. in return.

#### *Subsidiary Overview – German regulated activities*

The following (indirect) subsidiaries of the Issuer perform regulated activities in Germany:

##### *TenneT TSO Germany*

The activities of TenneT TSO Germany are described above under “*German regulated activities*”.

#### *DC Nordseekabel GmbH & Co KG*

The Issuer currently constructs – together with the Norwegian TSO Statnett SF and the German KfW – a 1,400 MW HVDC interconnector between Germany and Norway (“**NordLink**”). Landing points for the approximately 623 kilometres long interconnector will be in Tonstad in Vest-Agder (Norway) and Wilster in Schleswig-Holstein (Germany). The final investment decision between the three project partners Statnett SF, KfW and TenneT TSO Germany was made in 2015 and construction started in 2016. Provided that all licenses are awarded in time and suppliers have the necessary production capacity to construct this interconnector, NordLink will be in operation before the end of 2020. On the German side, the Issuer and KfW will (indirectly) jointly own (the southern) 50% of the project through their joint venture company DC Nordseekabel GmbH & Co KG, which was incorporated in April 2013. Statnett SF owns (the northern) 50% of the project. The southern part of NordLink owned by DC Nordseekabel GmbH & Co KG is solely operated by TenneT TSO Germany and, furthermore, the southern part belongs to TenneT TSO Germany’s regulated asset base.

In addition to these subsidiaries, TenneT TSO Germany holds the following non-controlling interests:

- JAO S.A.: 5% (see also “*Description of the Issuer – Business – Dutch Regulated business*” above).
- TSCNET Services GmbH: 7.7%. The remaining shares are held by 50Hertz Transmission GmbH, Amprion GmbH, Austrian Power Grid AG, ČEPS a.s., ELES Electro-Slovenija d.o.o., Croatian Transmission System Operator Ltd., Swissgrid AG, TenneT TSO NL, TransnetBW GmbH, Energinet.DK, PSE S.A. and MAVIR ZRt.

#### *TenneT Offshore Germany*

TenneT Offshore Germany directly or via subsidiaries operates and manages (including the planning and construction of) OWF Connections.

TenneT Offshore Germany has sold equity interests in subsidiaries to setup partnerships for OWF Connections. In this respect, reference is made to the Copenhagen Infrastructure Partners and Mitsubishi Corporation partnerships as described in “*Description of the Issuer – History and development of the Issuer – History of the Issuer*” above.

#### ***Subsidiary overview – unregulated activities***

No German subsidiary of TenneT is engaged in unregulated business activities. However, some German group companies merely function as a holding company without operative business as such.

#### *HGRT*

HGRT holds a 49% interest in EPEX which is the 100% owner of APX Holding B.V., EPEX and APX Holding B.V. together form the exchange platform for the power spot market in France, Germany, Austria, Switzerland, Netherlands, Belgium and the United Kingdom. TenneT Holding B.V. has a 34% interest in HGRT.

#### *NOVEC B.V.*

The Issuer is the sole shareholder of NOVEC B.V. NOVEC B.V. rents out and manages antenna sites (in high voltage pylons and ground based towers) for mobile telecom purposes and distributing radio and TV signals via the air. NOVEC B.V. has an interest of 25% in Open Tower Company B.V., with CIF Holding Wireless B.V. participating for the remaining 75%. Open Tower Company B.V. has an interest of (i) 100% in Colonne B.V., which owns a number of masts acquired in 2009, (ii) 100% in Mobile Radio Networks Vehicle B.V., which owns a number of masts acquired in 2010 and 2011 from KPN, the Dutch telecom operator, and (iii) 100% in OTC II B.V., which develops new telecom masts to be rented out to the Dutch operators. In the



Netherlands, NOVEC B.V. has (i) a 100% interest in Omroepmasten B.V., which owns (regulated) broadcasting masts, (ii) a 100 % interest in Duvekot Rentmeester B.V., which offers clients estate administration and consultancy services and (iii) a 100% interest in WL Winet B.V., which offers services with respect to telecom and data networks. In Germany, NOVEC B.V. has (i) a 100% interest in WL Winet GmbH, which also offers services with respect to telecom and data networks, and (ii) a 100% interest in NOVEC GmbH, which rents out and manages antenna sites for mobile telecom purposes.

#### *NLink International B.V.*

The Issuer is the sole shareholder of NLink International B.V. NLink International B.V. was established to develop and build international submarine cables. BritNed Development Ltd is a 50/50 joint venture of NLink International B.V. and National Grid International. BritNed Development Ltd has its registered office in London and was set up to develop, build and operate an interconnector between the Netherlands and the UK. BritNed Development Ltd is considered a non-regulated activity by the ACM due to the fact that it was classified as such by its UK counterparty, Ofgem.

The third Electricity EU Directive (2009/72/EC) requires that an operator is certified by the national regulatory authority, not only before it is approved and designated as transmission system operator, but also before it is approved and designated as an operator for interconnectors. BritNed Development Ltd has been certified by both the Ofgem and the ACM. BritNed Development has consequently been designated by the Minister of Economic Affairs as interconnector operator.

#### *Relined B.V.*

The Issuer is the sole shareholder of Relined B.V., which operates the fibre-optic infrastructure of the (extra) high voltage grid and the railway network.

#### *ETPA Holding B.V.*

The Issuer has a 40% interest in ETPA Holding B.V., an energy trading platform for the private sector which aims to be easily accessible for smaller parties as well.

#### ***Other Subsidiaries***

TenneT TSO Duitsland B.V., TenneT Orange B.V., TenneT Green B.V., TenneT Duitsland Coöperatief U.A., TransTenneT B.V., TenneT Verwaltungen GmbH and TenneT GmbH & Co. KG are (intermediate) holding companies which do not engage in any operating activities themselves.

## **Legal and arbitration proceedings**

### ***TenneT TSO NL***

Several legal and regulatory proceedings, including TenneT TSO NL's appeals against the ACM's method decisions, are described in "*Risk Factors – Factors that may affect the Issuer's ability to fulfil its obligations under the Securities – Impact of Dutch and German regulatory frameworks on the Issuer's business financial conditions and net income*" above under the headings "*Tariff regulation for the current regulatory period (2017-2021)*" and "*Regulatory decisions and proceedings*".

TenneT TSO NL is currently (indirectly) involved in several proceedings against government decisions regarding the compensation of damages resulting from government planning (*planschadebesluiten*). Although the decisions are made by the competent authorities and the damage claims are brought against those authorities, TenneT TSO NL is generally indirectly liable pursuant to contractual arrangements with the authorities. However, TenneT TSO NL expects that it will be able to recoup any such damages through its tariffs.

TenneT TSO NL is involved in an ACM procedure regarding a claim of an industrial customer due to an unplanned outage of the 150kV network. This industrial customer has requested the ACM to decide whether TenneT TSO NL has violated a legal obligation. The outcome of the ACM procedure could be used as input in a civil law procedure regarding the question whether TenneT TSO NL is obliged to compensate damages as result of an unplanned outage of the network. The findings in this case may have an impact on similar claims in the future. TenneT TSO NL expects that the request of this customer will be rejected.

Furthermore, there are several pending damage claim proceedings under the Public Works (Removal of Impediments in Private Law) Act (*Belemmeringenwet Privaatrecht*) before the Dutch courts. Several parties have claimed damages in connection with a decision by the Minister of Infrastructure and Environment obliging them to tolerate the installation and maintenance of a (extra) high voltage electricity connection on their property. One of the claims relates to depreciation of property of an industrial park. If damages are awarded, the Issuer expects that the loss could be recouped via the tariffs, although this is ultimately up to the ACM to decide and there may be a time lag between the moment that the Issuer must pay such damages and the moment that the loss can, subsequently, be recouped via the tariffs.

In 2016 and 2017, TenneT TSO NL was involved in Dutch summary court proceedings regarding its award in the platform Borssele alpha tender. One of the tenderers successfully challenged the initial award and TenneT TSO NL subsequently awarded the project to that tenderer. As the project can still be completed on time and the party to whom the project was initially awarded has announced that it will not start cassation proceedings, the remaining risks for TenneT TSO NL are limited. It cannot be ruled out that that party will initiate substantive proceedings, claiming damages, but TenneT TSO NL believes that such a claim is unjustified.

### ***TenneT TSO Germany***

TenneT TSO Germany and certain subsidiaries of TenneT TSO Germany are involved in several court and administrative proceedings. Several of these proceedings are described above in more detail under “*Risk Factors – Factors that may affect the Issuer’s ability to fulfil its obligations under the Securities – Impact of Dutch and German regulatory frameworks on the Issuer’s business financial conditions and net income*” above under the headings “*Connection of offshore windfarms*” and “*System Responsibility*”.

## **Financial policy**

The Issuer balances the objectives of generating a return on invested capital at least equal to the regulated return with aiming for a financial profile consistent with a “single-A” category senior unsecured rating. The Issuer has a financial policy aimed at mitigating financial risks.

The principal financial objectives are:

### ***Generate a return on invested capital at least equal to the regulated return***

In order to achieve this objective, the Issuer aims to (1) create and maintain a capital structure which enables the Issuer to achieve an optimal cost of capital and (2) provide the shareholder with a reasonable return on its investment in line with the risk profile of the Issuer.

### ***Protect shareholder capital and operating results against financial risk***

The Issuer’s policy is to maintain sufficient liquidity to meet its short-term obligations at all times. In addition, it is the Issuer’s policy to maintain solvency levels which enables it to absorb unexpected losses. This requires the availability of sufficient equity capital. In order to limit refinancing risk, the Issuer aims to diversify maturities of financing instruments. If and when appropriate, the Issuer hedges financial risks, such as interest rate risk, through appropriate hedging arrangements.

### ***Obtain and maintain access to financial markets at favourable conditions***

The Issuer targets a credit profile in line with a “single-A” category senior unsecured rating profile in order to secure good access to a wide range of financial markets. The Issuer aims to diversify sources of funding.

### **Funding**

At the date of this Prospectus, the Issuer expects aggregate investments in fixed assets, onshore and offshore, across the Group to amount to approximately EUR 25,000,000,000 during the next ten years. The level, timing and costs of these investments are subject to many uncertainties, such as, among others, timing and capacity of new electricity generation, the granting of permits by governmental bodies, commodity prices, number and capacity of suppliers and contractors, legislative and regulatory developments and the Group’s ability to arrange for the required funding. To fund these investments the Issuer expects to have all or part of the following funding sources available:

- (i) internally generated cash flows;
- (ii) EUR 2,200,000,000 committed revolving credit facility maturing in July 2021;
- (iii) EUR 2,200,000,000 commercial paper programme;
- (iv) public or private debt issuances under the Issuer’s EUR 8,000,000,000 EMTN Programme;
- (v) the Securities when issued on the Issue Date;
- (vi) various uncommitted bank lines totalling EUR 450,000,000 as of 31 December 2016;
- (vii) borrowing debt via a “Schuldscheindarlehen” and/or “Namenschuldverschreibung”;
- (viii) equity issuances to third parties at subsidiary level; and
- (ix) capital contributions from its shareholder.

As of 31 December 2016, the Issuer had no financial (ratio) covenants in any of its credit agreements.

## Use of Proceeds

The net proceeds from the issue of the Securities, expected to amount to €996,230,000, will be allocated to a sub portfolio (the “**Green Project Portfolio**”) with the special purpose to finance, refinance and/or invest in Eligible Green Projects (as defined below) meeting the Eligibility Criteria (as defined below).

### Usage for Eligible Green Projects

“**Eligible Green Projects**” means projects relating to the transmission of renewable electricity from offshore wind power plants into the onshore electricity grid using direct current technology or alternating current technology.

“**Eligibility Criteria**” means the criteria prepared by the Issuer. A second party consultant (*e.g.* oekom research AG) will review the selected Eligible Green Projects and issue a second party opinion based on the Eligibility Criteria. The second party-opinion will be made available on the Issuer's website ([www.tennet.eu](http://www.tennet.eu)).

Pending allocation to Eligible Green Projects of the net proceeds for investment in Eligible Green Projects, the Issuer will hold such net proceeds, at its discretion, in cash or other liquid marketable instruments in its Green Project Portfolio. The balance of the Green Project Portfolio, until such amount is used in full, will be reduced by the amounts invested in Eligible Green Projects meeting the Eligibility Criteria. The Issuer will establish systems to monitor and account for the net proceeds for investment in Eligible Green Projects in order to ensure the allocation of such net proceeds to the Green Project Portfolio for the investments in Eligible Green Projects meeting the Eligibility Criteria.

The Issuer is expected to issue a report on (i) the impact of the Eligible Green Projects on the environment, as well as (ii) whether the net proceeds issued under the green Securities are used to finance Eligible Green Projects. This report will be issued once a year until all Securities are repaid in full. The report will be reviewed by a second party consultant or with limited assurance by an independent auditor. In addition, the Issuer is expected to provide regular information through its website ([www.tennet.eu](http://www.tennet.eu)) and/or newsletters to investors on the environmental outcomes of the Eligible Green Projects.

### Admission to trading

The expenses related to the admission to trading are estimated to amount to approximately €13,200.

## Taxation in the Netherlands

### General

The following summary outlines the principal Netherlands tax consequences of the acquisition, holding, settlement, redemption and disposal of the Securities, but does not purport to be a comprehensive description of all Netherlands tax considerations that may be relevant. For purposes of Netherlands tax law, a holder of Securities may include an individual or entity who does not have the legal title of these Securities, but to whom nevertheless the Securities or the income thereof is attributed based on specific statutory provisions or on the basis of such individual or entity having an interest in the Securities or the income thereof. This summary is intended as general information only and each prospective investor should consult a professional tax adviser with respect to the tax consequences of the acquisition, holding, settlement, redemption and disposal of the Securities.

This summary is based on tax legislation, published case law, treaties, regulations and published policy, in each case as in force as of the date of this Prospectus, and does not take into account any developments or amendments thereof after that date whether or not such developments or amendments have retroactive effect.

This summary does not address the Netherlands corporate and individual income tax consequences for:

- (i) investment institutions (*fiscale beleggingsinstellingen*);
- (ii) pension funds, exempt investment institutions (*vrijgestelde beleggingsinstellingen*) or other Netherlands tax resident entities that are not subject to or exempt from Netherlands corporate income tax;
- (iii) holders of Securities holding a substantial interest (*aanmerkelijk belang*) or deemed substantial interest (*fictief aanmerkelijk belang*) in the Issuer and holders of Securities of whom a certain related person holds a substantial interest in the Issuer. Generally speaking, a substantial interest in the Issuer arises if a person, alone or, where such person is an individual, together with his or her partner (statutorily defined term), directly or indirectly, holds or is deemed to hold (i) an interest of 5% or more of the total issued capital of the Issuer or 5% or more of the issued capital of a certain class of shares of the Issuer, (ii) rights to acquire, directly or indirectly, such interest or (iii) certain profit-sharing rights in the Issuer;
- (iv) persons to whom the Securities and the income from the Securities are attributed based on the separated private assets (*afgezonderd particulier vermogen*) provisions of the Netherlands Income Tax Act 2001 (*Wet inkomstenbelasting 2001*);
- (v) entities which are a resident of Aruba, Curacao or Sint Maarten that have an enterprise which is carried on through a permanent establishment or a permanent representative on Bonaire, Sint Eustatius or Saba and the Securities are attributable to such permanent establishment or permanent representative;
- (vi) individuals to whom Securities or the income there from are attributable to employment activities which are taxed as employment income in the Netherlands; and
- (vii) entities which are related to an entity which holds an interest of 5% or more in the nominal paid up capital of the Issuer.

Where this summary refers to the Netherlands, such reference is restricted to the part of the Kingdom of the Netherlands that is situated in Europe and the legislation applicable in that part of the Kingdom.

## **Withholding Tax**

All payments (including payments upon redemption or repurchase of Securities) made by the Issuer under the Securities may be made free of withholding or deduction for any taxes of whatsoever nature imposed, levied, withheld or assessed by the Netherlands or any political subdivision or taxing authority thereof or therein provided that the Securities do not in fact function as equity of the Issuer within the meaning of article 10, paragraph 1, under d of the Netherlands Corporate Income Tax Act 1969 (*Wet op de vennootschapsbelasting 1969*).

## **Corporate and Individual Income Tax**

### *Residents of the Netherlands*

If a holder of Securities is a resident of the Netherlands or deemed to be a resident of the Netherlands for Netherlands corporate income tax purposes and is fully subject to Netherlands corporate income tax or is only subject to Netherlands corporate income tax in respect of an enterprise to which the Securities are attributable, income derived from the Securities and gains realised upon the redemption, settlement or disposal of the Securities are generally taxable in the Netherlands (at up to a maximum rate of 25%).

If an individual is a resident of the Netherlands or deemed to be a resident of the Netherlands for Netherlands individual income tax purposes, income derived from the Securities and gains realised upon the redemption, settlement or disposal of the Securities are taxable at the progressive rates (at up to a maximum rate of 52%) under the Netherlands Income Tax Act 2001 (*Wet inkomstenbelasting 2001*), if:

- (i) the individual is an entrepreneur (*ondernemer*) and has an enterprise to which the Securities are attributable or the individual has, other than as a shareholder, a co-entitlement to the net worth of an enterprise (*medegerechtigde*), to which enterprise the Securities are attributable; or
- (ii) such income or gains qualify as income from miscellaneous activities (*resultaat uit overige werkzaamheden*), which includes activities with respect to the Securities that exceed regular, active portfolio management (*normaal, actief vermogensbeheer*).

If neither condition (i) nor condition (ii) above applies, an individual that holds the Securities, must determine taxable income with regard to the Securities on the basis of a deemed return on income from savings and investments (*sparen en beleggen*), rather than on the basis of income actually received or gains actually realised. This deemed return on income from savings and investments is fixed at a percentage of the individual's yield basis (*rendementsgrondslag*) at the beginning of the calendar year (1 January), insofar as the individual's yield basis exceeds a certain threshold (*heffingvrij vermogen*). The individual's yield basis is determined as the fair market value of certain qualifying assets held by the individual less the fair market value of certain qualifying liabilities on 1 January. The fair market value of the Securities will be included as an asset in the individual's yield basis. The deemed return percentage to be applied to the yield basis increases progressively depending on the amount of the yield basis. The deemed return on income from savings and investments is taxed at a rate of 30%.

### *Non-residents of the Netherlands*

If a person is neither a resident of the Netherlands nor is deemed to be a resident of the Netherlands for Netherlands corporate or individual income tax purposes, such person is not liable to Netherlands income tax in respect of income derived from the Securities and gains realised upon the settlement, redemption or disposal of the Securities, unless:

- (i) the person is not an individual and such person (1) has an enterprise that is, in whole or in part, carried on through a permanent establishment or a permanent representative in the Netherlands to which permanent establishment or permanent representative the Securities are attributable, or (2) is, other than by way of

securities, entitled to a share in the profits of an enterprise or a co-entitlement to the net worth of an enterprise, which is effectively managed in the Netherlands and to which enterprise the Securities are attributable.

This income is subject to Netherlands corporate income tax at up to a maximum rate of 25%.

- (ii) the person is an individual and such individual (1) has an enterprise or an interest in an enterprise that is, in whole or in part, carried on through a permanent establishment or a permanent representative in the Netherlands to which permanent establishment or permanent representative the Securities are attributable, or (2) realises income or gains with respect to the Securities that qualify as income from miscellaneous activities in the Netherlands which include activities with respect to the Securities that exceed regular, active portfolio management (*normaal, actief vermogensbeheer*), or (3) is, other than by way of securities, entitled to a share in the profits of an enterprise which is effectively managed in the Netherlands and to which enterprise the Securities are attributable.

Income derived from the Securities as specified under (1) and (2) is subject to individual income tax at progressive rates up to a maximum rate of 52%. Income derived from a share in the profits of an enterprise as specified under (3) that is not already included under (1) or (2) will be taxed on the basis of a deemed return on income from savings and investments (as described above under “Residents of the Netherlands”).

#### **Gift and Inheritance Tax**

Netherlands gift or inheritance tax will not be levied on the occasion of the transfer of the Securities by way of gift by, or on the death of, a holder of Securities, unless:

- (i) the holder of Securities is, or is deemed to be, resident in the Netherlands for the purpose of the relevant provisions; or
- (ii) the transfer is construed as an inheritance or gift made by, or on behalf of, a person who, at the time of the gift or death, is or is deemed to be resident in the Netherlands for the purpose of the relevant provisions.

#### **Value Added Tax**

In general, no value added tax will arise in respect of payments in consideration for the issue of the Securities or in respect of a cash payment made under the Securities, or in respect of a transfer of Securities.

#### **Other Taxes and Duties**

No registration tax, customs duty, transfer tax, stamp duty or any other similar documentary tax or duty will be payable in the Netherlands by a holder in respect of or in connection with the subscription, issue, placement, allotment, delivery or transfer of the Securities.

## Subscription and Sale

Barclays Bank PLC and Deutsche Bank AG, London Branch (the “**Joint Structuring Advisers**”), BNP Paribas, HSBC Bank plc and ING Bank N.V. (together with the Joint Structuring Advisers, the “**Joint Lead Managers**”) have, pursuant to a Subscription Agreement dated 10 April 2017, jointly and severally agreed with the Issuer, subject to the satisfaction of certain conditions, to subscribe the Securities at 99.973 per cent. of their principal amount less a combined management and underwriting commission of 0.35 per cent. of such principal amount. In addition, the Issuer has agreed to reimburse the Joint Lead Managers for certain of their expenses in connection with the issue of the Securities. The Subscription Agreement entitles the Joint Lead Managers to terminate it in certain circumstances prior to payment being made to the Issuer.

### SELLING RESTRICTIONS

#### General

Neither the Issuer nor any Joint Lead Manager has made any representation that any action will be taken in any jurisdiction by the Joint Lead Managers or the Issuer that would permit a public offering of the Securities, or possession or distribution of this Prospectus (in preliminary, proof or final form) or any other offering or publicity material relating to the Securities (including roadshow materials and investor presentations), in any country or jurisdiction where action for that purpose is required. Each Joint Lead Manager has agreed that it will comply to the best of its knowledge and belief in all material respects with all applicable laws and regulations in each jurisdiction in which it acquires, offers, sells or delivers Securities or has in its possession or distributes this Prospectus (in preliminary, proof or final form) or any such other material, in all cases at its own expense.

#### The Netherlands

The Securities have not been and will not be offered in the Netherlands other than to persons or entities who or which are a qualified investor (*gekwalificeerde belegger*) as defined in Section 1:1 of the Dutch Financial Supervision Act (*Wet op het financieel toezicht*).

#### United States

The Securities have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act.

The Securities are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and regulations thereunder.

In addition, until 40 days after the commencement of the offering, an offer or sale of Securities within the United States by any dealer that is not participating in the offering may violate the registration requirements of the Securities Act.

#### United Kingdom

Each Joint Lead Manager has represented and agreed that:

- (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Securities in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and



- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Securities in, from or otherwise involving the United Kingdom.

### **Japan**

The Securities have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended, the “**Financial Instruments and Exchange Act**”). Accordingly, each of the Joint Lead Managers has represented and agreed that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Securities in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan) or to others for reoffering or resale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Act and other relevant laws and regulations of Japan.

### **Switzerland**

This Prospectus is not intended to constitute an offer or solicitation to purchase or invest in the Securities. Each Joint Lead Manager has represented and agreed that the Securities may not be publicly offered, sold or advertised, directly or indirectly, in, into or from Switzerland and will not be listed on the SIX Swiss Exchange or on any other exchange or regulated trading facility in Switzerland. Neither this Prospectus nor any other offering or marketing material relating to the Securities constitutes a prospectus as such term is understood pursuant to article 652a or article 1156 of the Swiss Code of Obligations, and neither this Prospectus nor any other offering or marketing material relating to the Securities may be publicly distributed or otherwise made publicly available in Switzerland.

## General Information

1. Application has been made to Euronext Amsterdam N.V. (“**Euronext**”) for the Securities to be listed and admitted to trading on the regulated market of Euronext in Amsterdam (“**Euronext Amsterdam**”). References in this Prospectus to Securities being “listed” (and all related references) shall mean that such Securities have been listed and admitted to trading on the regulated market of Euronext Amsterdam. Euronext Amsterdam is a regulated market for the purposes of Directive 2004/39/EC of the European Parliament and of the Council on markets in financial instruments.
2. The Issuer has obtained all necessary consents, approvals and authorisations in The Netherlands in connection with the issue and performance of the Securities. The issue of the Securities was authorised by resolutions of the management board of the Issuer passed on 23 December 2016.
3. There has been no significant change in the financial or trading position of the Issuer or of the Group and no material adverse change in the prospects of the Issuer or of the Group since 31 December 2016.
4. Except as disclosed under “*Risk Factors – Factors that may affect the Issuer’s ability to fulfil its obligations under the Securities – Impact of Dutch and German regulatory frameworks on the Issuer’s business financial conditions and net income*” under the headings “*Tariff regulation for the current regulatory period (2017-2021)*”, “*Regulatory decisions and proceedings*”, “*Connection of offshore windfarms*” and “*System Responsibility*” and under “*Business Description of the Issuer – Legal and arbitration proceedings*” above, neither the Issuer nor any of its subsidiaries is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) during the 12 months preceding the date of this Prospectus which may have or has had in the recent past significant effects on the financial position or profitability of the Issuer or the Group.
5. Each Security and Coupon will bear the following legend: “*Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code*”.
6. The Securities have been accepted for clearance through the Euroclear and Clearstream, Luxembourg systems (which are the entities in charge of keeping the records). The International Securities Identification Number (ISIN) for the Securities is XS1591694481 and the Common Code 159169448.  
  
The address of Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium and the address of Clearstream, Luxembourg is 42 Avenue JF Kennedy L-1855 Luxembourg.
7. There are no material contracts entered into other than in the ordinary course of the Issuer’s business, which could result in any member of the Group being under an obligation or entitlement that is material to the Issuer’s ability to meet its obligations to Holders in respect of the Securities being issued.
8. Where information in this Prospectus has been sourced from third parties, this information has been accurately reproduced and, as far as the Issuer is aware and is able to ascertain from the information published by such third parties, no facts have been omitted which would render the reproduced information inaccurate or misleading. The source of third-party information is identified where used.
9. Save for the commissions and any fees payable to the Joint Lead Managers, no person involved in the issue of the Securities has an interest, including conflicting ones, material to the offer.

10. Copies of the following documents will be available free of charge during normal business hours from the registered office of the Issuer and from the specified office of the Paying Agent for the time being as long as any of the Securities remains outstanding:
  - (a) the Articles of Association (*statuten*) of the Issuer;
  - (b) the annual reports of the Issuer for the years ended 31 December 2015 and 31 December 2016 (containing the audited financial statements of the Issuer, which include the consolidated financial statements), in each case together with the audit reports prepared in connection therewith;
  - (c) copies of the Agency Agreement; and
  - (d) a copy of this Prospectus.
11. Ernst & Young Accountants LLP have audited and rendered an unqualified audit report on the consolidated annual financial statements of the Issuer for each of the two years ended 31 December 2015 and 31 December 2016. The auditors of Ernst & Young Accountants LLP are members of the Netherlands Institute of Chartered Accountants (“*Nederlandse Beroepsorganisatie van Accountants*”), the Dutch accountants board. The auditors of the Issuer have no material interest in the Issuer.
12. The Issuer accepts responsibility for the information contained in this Prospectus. To the best of the knowledge and belief of the Issuer (which has taken all reasonable care to ensure that such is the case), the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

**Registered Office of the Issuer**

**TenneT Holding B.V.**

Utrechtseweg 310  
6812 AR Arnhem  
The Netherlands

**Auditors of the Issuer**

**Ernst & Young Accountants LLP**

Zwartewaterallee 56  
8031 DX Zwolle  
The Netherlands

**Joint Structuring Advisers to the Issuer and Joint Lead Managers**

**Barclays Bank PLC**

5 The North Colonnade  
Canary Wharf  
London E14 4BB  
United Kingdom

**Deutsche Bank AG, London Branch**

Winchester House  
1 Great Winchester Street  
London EC2N 2DB  
United Kingdom

**Joint Lead Managers**

**BNP Paribas**

10 Harewood Avenue  
London NW1 6AA  
United Kingdom

**HSBC Bank plc**

8 Canada Square  
London E14 5HQ  
United Kingdom

**ING Bank N.V.**

Foppingadreef 7  
1102 BD Amsterdam  
The Netherlands

**Fiscal Agent, Paying Agent and Calculation Agent**

**The Bank of New York Mellon, London Branch**

One Canada Square  
London E14 5AL  
United Kingdom

**Legal Advisers**

*To the Issuer (as to Dutch law)*

**De Brauw Blackstone Westbroek N.V.**

Claude Debussylaan 80  
1082 MD Amsterdam  
The Netherlands

*To the Joint Lead Managers*

**Allen & Overy LLP**

Apollolaan 15  
1077 AB Amsterdam  
The Netherlands

***To the Issuer (as to German law)***

Partnerschaft von Rechtsanwälten mbB

**Hengeler Mueller**

Benrather Strasse 18-20

40213 Düsseldorf

Germany

**Tax Advisers**

***To the Issuer***

KPMG Meijburg

Laan van Langerhuize 9

1186 DS Amstelveen

The Netherlands

***To the Joint Lead Managers***

Allen & Overy LLP

Apollolaan 15

1077 AB Amsterdam

The Netherlands