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# TenneT Holding B.V.

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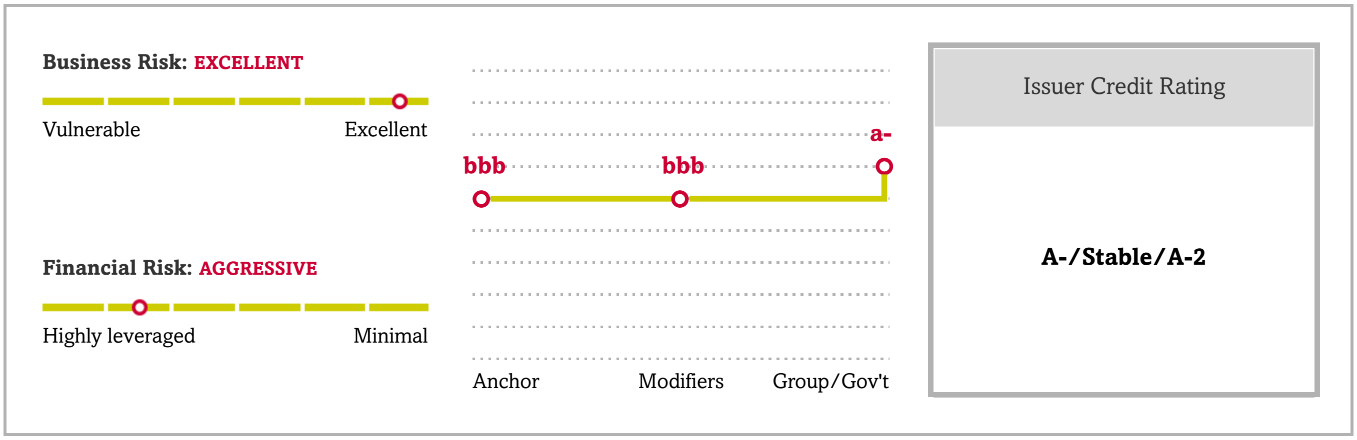
# TenneT Holding B.V.




## Credit Highlights

### Overview

| Key strengths | Key risks |
|---|---|
| Almost all income (over 95% of EBITDA) is derived from low-risk transmission activities in supportive regulatory regimes. | Pressure on profitability stemming from regulatory period resets and ongoing funding needs that weigh on credit metrics. |
| Significant growth prospects reflect the large investment program, which will increase the regulatory asset base (RAB). | Very high capital expenditure (capex) tied to the network development plan (NDP). This offers limited flexibility and requires significant financing and ongoing equity contributions. |
| Ownership by the Dutch state, which provides ongoing credit support via equity contributions, and is expected to be supportive in extraordinary circumstances. | Material negative free cash flows after capex and dividends. |

***The draft remuneration methodology published on April 19, 2022, by Dutch regulator the Authority for Consumers and Markets (ACM) confirms lower remuneration for electricity & gas transmission activities in the Netherlands.*** S&P Global Ratings notes that the proposed weighted-average cost of capital (WACC) is the lowest among European regulatory frameworks. That said, we believe TenneT Holding B.V. benefits from its geographical diversification in Germany, where it generates around 75% of EBITDA. This should limit the potential hit; we anticipate that TenneT's metrics will remain commensurate with the current rating. We expect that the regulator will publish its final decision by the end of the third quarter in 2021, and that it will be in line with our base case assumptions.

***As European and national climate goals are intensifying, so is TenneT's capex program.*** Transmission system operators (TSOs) incorporate the continuously changing national and EU climate ambitions in their investment plans. TenneT plans to grow investments to about €5 billion-€6 billion a year in the coming five years, from about €3.5 billion in FY2020. The German regulator, Bundesnetzagentur, approved an updated "German 2019–2030 Network Development Plan" (NDP 2030), presented by the four German TSOs, in December 2019. This plan aims to meet Germany's renewable energy target of 65% of gross energy consumption by 2030 and manage the long-term effects of Germany exiting from coal by 2038. From 2019, the German NDP 2030 intends to add an additional 3,600 kilometres of transmission lines. In TenneT's Dutch service area, it is making additional investments to enhance and update the 380 kilovolts (kV) onshore grid ring structure; enable new offshore connections; and expand crossborder transport capabilities.

***Of the European TSOs, TenneT is connecting the lion's share of the EU's offshore wind farms, which is the crucial driver of its capex program.*** Of the current European offshore capacity of 12 gigawatts (GW), TenneT has connected 7.5 GW. The new draft version of the German NPD 2030, published on April 26, 2021, considers that by 2035 Germany will have 30 GW-35 GW in capacity from offshore wind farm connections, and 40 GW by 2040. In the Netherlands, TenneT is to integrate offshore farms of 3.5 GW by 2023 and 11 GW by 2030. At a European level, the target is to reach 300 GW in offshore capacity by 2050. As a result, we expect TenneT's level of investment to remain significant.

***Extensive investment needs render TenneT dependent on ongoing government support and capital markets access.*** The Dutch government is considering alternatives to raising equity, including direct equity contributions from the state or a partial sale of TenneT to a private party. Its preferred option, however, is still to work in cooperation with the German state, even though exclusive negotiations with the German government came to a halt in February 2021. TenneT estimates that it will not need capital support for its German operations until January 2024, so there is still time to reach an agreement.

***Our core S&P Global Ratings-adjusted metrics for full-year 2023 should be well above 8% (before regulatory account effects).*** This gives TenneT ample headroom above our downside rating trigger of 6%. The company issued a €1 billion green hybrid bond in July 2020 to support its operations (see "Germany/Netherlands-Based TSO TenneT Proposed Green Hybrid Instrument Rated 'BB+'," July 13, 2020). Therefore, it has no further need for equity injections before 2024. We incorporate ongoing capital support by TenneT's owners in our base case, given the Dutch state's commitment and track record of providing support.

**Outlook: Stable**

Our outlook on power grid operator TenneT is stable because we do not expect operating conditions for power transmission in the Netherlands and Germany to change in the coming years. In particular, our base case assumes that TenneT's direct owner, the Dutch Ministry of Finance, would consent to lower dividends to mitigate an unexpected increase in the company's already high leverage. Overall, we see a moderately high likelihood that TenneT would receive extraordinary support from the Dutch government in the event of financial distress. Our assessment of TenneT's stand-alone credit profile (SACP) also takes into account the government's ongoing support through measures such as capital contributions.

We assume that TenneT's large planned investments and lower regulated returns will weaken its credit metrics in the coming years. However, we expect them to remain commensurate with the ratings.

### Downside scenario

We could lower the ratings if TenneT's SACP deteriorates to 'bbb-' or lower. This could occur if changes to either the German or Dutch regulatory framework materially weakened the stability of TenneT's cash flows or profitability.

We would also downgrade TenneT if its adjusted ratio of funds from operations (FFO) to debt declines and stays below 6%. This could occur if, for example, TenneT's capex increases further, without offsetting measures, or if there are unexpected delays or cost overruns on existing projects and these are not covered by regulated tariffs.

If the Dutch government seems less likely to support TenneT, we could lower our rating on TenneT. However, a one-notch downgrade of the Netherlands would not trigger a downgrade of TenneT if TenneT's stand-alone credit quality did not weaken.

### Upside scenario

We see the likelihood of an upgrade as remote in light of TenneT's extensive investment program, which will lead to a material increase in debt and weaken debt coverage ratios over the medium term. That said, we would consider revising the SACP upward if TenneT demonstrates that it can sustain adjusted FFO to debt of more than 10%, while maintaining negative free operating cash flow (FOCF) to debt no lower than 10%, assuming its business risk does not increase.

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

## Our Base-Case Scenario

### Assumptions

German regulated:

- Return on equity (ROE) of 5.12% (assets commissioned before January 2006) and 6.91% (new assets).
- Sectoral efficiency factor (xgen; productivity target) of 0.9% for the five-year regulatory period starting 2019.
- Individual efficiency factor (xind) of 99.92% for the five-year regulatory period starting 2019.

Dutch regulated:

- 2016-2021: Regulated expected capital cost allowance (real pre-tax WACC) gradually decreasing to 3.0% in 2021 from 4.5% in 2016 for existing capital; gradually decreasing to 3.0% from 3.8% over the same period for new investments (3.6%).
- 2022-2026: Real pre-tax WACC gradually decreasing to 0.99% in 2026 from 1.15% in 2022 for existing capital; 0.97% for new investments.
- Xind of 97.9% in 2021, 95.88% in 2022, and 83.5% in 2025.
- Xgen productivity factor: 0% in 2021, 0.5% onshore, and 0.2% offshore for 2022-2026.

Combined operations:

- A steady rise in revenue as investments in the Netherlands and Germany increase the RAB by about 14% a year over the coming two years. We assume around €8.2 billion of capex over 2021 and 2022--about two-thirds of this in Germany and about 35% of total capex in offshore connections.
- A dividend payout ratio of 35% of the underlying distributable profit, after income allocated to project investors and distributions to hybrid capital holders.

### Key metrics

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

| (Mil. €) | 2019a | 2020a | 2021e | 2022f |
|---|---|---|---|---|
| EBITDA | 2,059 | 2,400 | 1,800-2,000 | 1,900-2,100 |
| Funds from operations (FFO) | 1,675.5 | 1,789.5 | 1,400-1,600 | 1,500-1,700 |
| Capital expenditure | 2,720.0 | 3,413.0 | ~4,000 | ~4,000 |
| Debt to EBITDA (x) | 5.6 | 6.2 | 8.2-8.6 | <9.4 |
| FFO to debt (%) | 14.4 | 12.1 | 8.8-10.3 | >8 |
| FOCF to debt (%) | (13.6) | (25.1) | Negative | Negative |

*All figures adjusted by S&P Global Ratings. a--Actual. e--Estimate. f--Forecast. FOCF--Free operating cash flow.

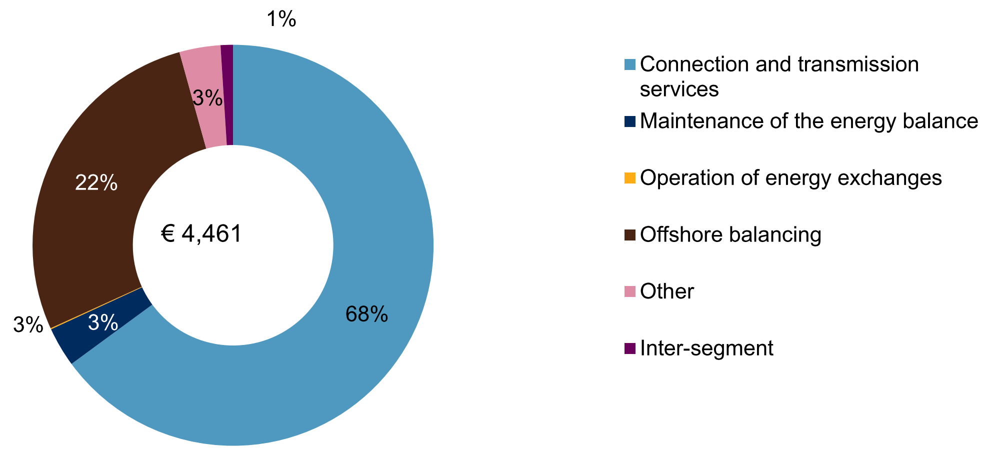
## Company Description

TenneT is a leading European electricity TSO serving 42 million end-users in the Netherlands and Germany and 16 cross-border interconnectors through about 24 thousand kilometers (km) of high voltage transmission lines. As such, the company's activities are under the oversight of the regulatory authorities in each jurisdiction, the Autoriteit

Consument & Markt (ACM) in the Netherlands and Bundesnetzagentur (BNetzA) in Germany. The company generates annual turnover of about €5 billion and EBITDA of about €2.4 billion in 2020; its asset book value totals €27.3 billion. TenneT is involved in limited nonregulated activities (below 5%) through its 50% stake in BritNed, a merchant cable operator (Anglo-Dutch interconnector), 17% stake in EPEX, a North West European electricity exchange, and 100% stake in Relined and NOVEC, two telecommunication infrastructure companies.

**Chart 1**

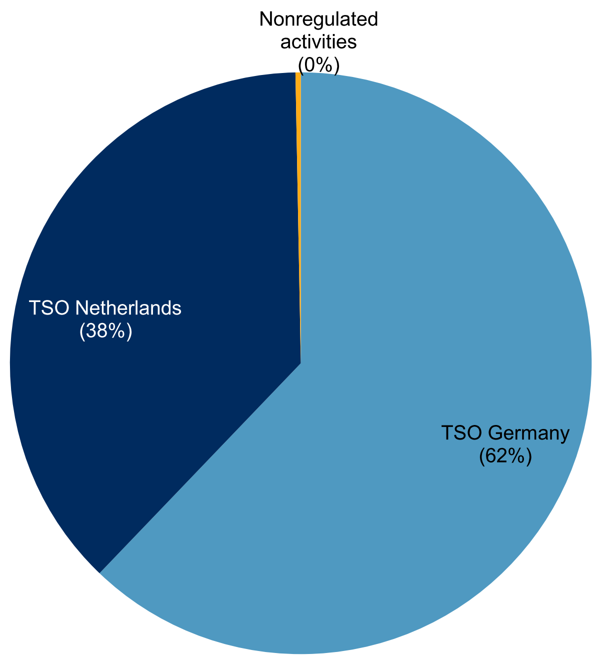
**TenneT 2020 Disaggregated Revenues Split**




Source: S&P Global Ratings.

**Chart 2**

**TenneT 2020 Investments Split**




Source: TenneT annual report.



## Peer comparison

**Table 1**

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

| **Industry sector: Electric** | | | | |
|---|---|---|---|---|
| | **TenneT Holding B.V.** | **Elia Group SA/NV** | **National Grid PLC** | **RTE Reseau de Transport d Electricite** |
| Ratings as of May 6, 2021 | A-/Stable/A-2 | BBB+/Stable/A-2 | BBB+/Stable/A-2 | A/Stable/A-1 |
| | **--Fiscal year ended--** | | | |
| | **Dec. 31, 2020** | **Dec. 31, 2019** | **Dec. 31, 2020** | **Dec. 31, 2020** |
| **(Mil. €)** | | | | |
| Revenues | 5,025.0 | 2,318.5 | 16,473.8 | 4,729.1 |
| EBITDA | 2,400.0 | 950.2 | 5,731.8 | 1,930.0 |
| FFO | 1,789.5 | 613.3 | 4,283.9 | 1,521.3 |
| Interest expense | 219.5 | 140.2 | 1,309.7 | 219.5 |
| Cash interest paid | 208.5 | 170.4 | 1,040.1 | 193.2 |
| Cash flow from operations | (304.5) | 61.8 | 4,469.7 | 1,349.1 |

**Table 1**

| TenneT Holding B.V.--Peer Comparison (cont.) | | | | |
|---|---|---|---|---|
| Capital expenditures | 3,413.0 | 1,157.7 | 5,551.7 | 1,400.7 |
| Free operating cash flow | (3,717.5) | (1,095.9) | (1,082.0) | (51.6) |
| Discretionary cash flow | (3,949.0) | (1,233.2) | (2,143.6) | (460.2) |
| Cash and short-term investments | 477.0 | 513.7 | 1,160.2 | 2,148.1 |
| Debt | 13,264.0 | 6,546.7 | 34,919.3 | 14,213.2 |
| Equity | 7,055.5 | 3,981.4 | 23,382.9 | 5,655.1 |
| **Adjusted ratios** | | | | |
| EBITDA margin (%) | 47.8 | 41.0 | 34.8 | 40.8 |
| Return on capital (%) | 7.2 | 5.9 | 7.0 | 4.9 |
| EBITDA interest coverage (x) | 10.9 | 6.8 | 4.4 | 8.8 |
| FFO cash interest coverage (x) | 9.6 | 4.6 | 5.1 | 8.9 |
| Debt/EBITDA (x) | 5.5 | 6.9 | 6.1 | 7.4 |
| FFO/debt (%) | 13.5 | 9.4 | 12.3 | 10.7 |
| Cash flow from operations/debt (%) | (2.3) | 0.9 | 12.8 | 9.5 |
| Free operating cash flow/debt (%) | (28.0) | (16.7) | (3.1) | (0.4) |
| Discretionary cash flow/debt (%) | (29.8) | (18.8) | (6.1) | (3.2) |

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

Nevertheless, TenneT benefits from a few strengths that its European TSO peers do not share, in particular a lower dividend payout (35%) and ongoing support from its related government. For example, TenneT benefitted from a €1.2 billion equity contribution from the Dutch government over 2017-2020.

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

## Business Risk: Excellent

***TenneT's business risk profile is supported by its position as the Netherlands' only electricity TSO and Germany's largest electricity TSO.*** The company generates the bulk of its revenue under the German and Dutch regulatory regimes (above 95% of EBITDA), which we view as supportive. TenneT is exposed to higher execution risks than other TSOs due to its very large capex plan, especially in Germany where the rapid growth of renewable energy necessitates significant investments in the onshore and offshore grids, creating a range of new challenges and risks. Over the next

10 years, we estimate that TenneT will invest €50 billion-€60 billion in onshore and offshore grid infrastructure in both countries. These risks are partly offset by TenneT's good operating performance and track record so far. Further, most of the German investments are deemed necessary for the energy transition, grid stability, and the international integration of the German network. Gas and electricity TSOs can fully recover growth and extraordinary expenditure from such investments on a pass-through basis ("cost plus").

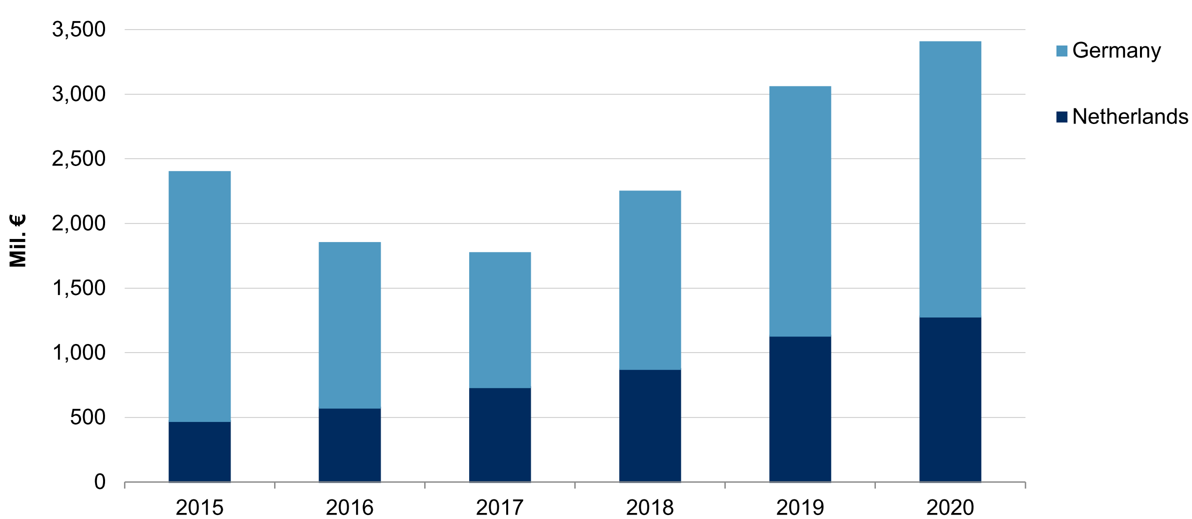
***Regulatory frameworks in the Netherlands and Germany provide TSOs with a strong regulatory advantage.*** TSOs benefit from the regulators' solid track record of stability, and five-year regulatory periods with well-defined and transparent conditions. The regulatory frameworks provide virtually full coverage of costs (opex and capex) and protection against inflation, volume risk, and commodity risk. The stability and transparency of the framework allow for predictable and well-defined cash flows over a regulatory period. The final deliberation from ACM over the remuneration features of the next regulatory period is expected in September 2021. This should provide clarity, particularly on the retained level of WACC. We do not expect any downside to our base-case assumptions.

## Financial Risk: Aggressive

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

**Chart 3**

**TenneT Capex Historical Evolution**




Source: Annual reports, S&P Global Ratings.

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

***We expect TenneT's credit metrics will weaken in the coming years.*** Specifically, we expect adjusted FFO to debt to decline in the coming two years to below 10% from about 12% at year-end 2020, and debt to increase by more than €1.5 billion a year, on average. The forecast decline is mainly due to the continuing expansion of the investment program as per the German and Dutch NDP, combined with lower regulatory remuneration in the Netherlands. Note, our forecasts exclude regulatory account effects.

## Financial summary

**Table 2**

**TenneT Holding B.V.--Financial Summary**

**Industry sector: Electric**

| | --Fiscal year ended Dec. 31-- | | | | |
|---|---|---|---|---|---|
| | **2020** | **2019** | **2018** | **2017** | **2016** |
| **(Mil. €)** | | | | | |
| Revenue | 5,025.0 | 4,422.0 | 4,269.0 | 3,976.0 | 2,843.0 |
| EBITDA | 2,400.0 | 2,059.0 | 1,697.0 | 1,579.5 | 1,075.0 |
| Funds from operations (FFO) | 1,789.5 | 1,675.5 | 1,246.3 | 1,209.8 | 711.8 |
| Interest expense | 219.5 | 225.0 | 216.7 | 206.2 | 198.2 |
| Cash interest paid | 208.5 | 183.5 | 211.7 | 188.7 | 152.2 |
| Cash flow from operations | (304.5) | 1,145.5 | 1,315.3 | 1,464.8 | 418.8 |
| Capital expenditure | 3,413.0 | 2,720.0 | 2,316.0 | 1,754.0 | 1,786.0 |
| Free operating cash flow (FOCF) | (3,717.5) | (1,574.5) | (1,000.7) | (289.2) | (1,367.2) |
| Discretionary cash flow (DCF) | (3,949.0) | (1,819.0) | (1,313.7) | (1,158.7) | (1,645.7) |
| Cash and short-term investments | 477.0 | 202.0 | 8.0 | 55.0 | 157.0 |
| Gross available cash | 477.0 | 202.0 | 8.0 | 55.0 | 157.0 |
| Debt | 13,264.0 | 11,601.3 | 10,250.8 | 9,021.7 | 8,227.2 |
| Equity | 7,055.5 | 5,980.0 | 5,310.0 | 5,068.0 | 4,631.0 |
| **Adjusted ratios** | | | | | |
| EBITDA margin (%) | 47.8 | 46.6 | 39.8 | 39.7 | 37.8 |
| Return on capital (%) | 7.2 | 6.6 | 6.2 | 6.9 | 4.2 |
| EBITDA interest coverage (x) | 10.9 | 9.2 | 7.8 | 7.7 | 5.4 |
| FFO cash interest coverage (x) | 9.6 | 10.1 | 6.9 | 7.4 | 5.7 |
| Debt/EBITDA (x) | 5.5 | 5.6 | 6.0 | 5.7 | 7.7 |
| FFO/debt (%) | 13.5 | 14.4 | 12.2 | 13.4 | 8.7 |
| Cash flow from operations/debt (%) | (2.3) | 9.9 | 12.8 | 16.2 | 5.1 |
| FOCF/debt (%) | (28.0) | (13.6) | (9.8) | (3.2) | (16.6) |
| DCF/debt (%) | (29.8) | (15.7) | (12.8) | (12.8) | (20.0) |

## Reconciliation

**Table 3**

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

| | --Fiscal year ended Dec. 31, 2020-- | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **TenneT Holding B.V. reported amounts** | | | | | | | | |
| | **Debt** | **Shareholders' equity** | **EBITDA** | **Operating income** | **Interest expense** | **S&P Global Ratings' adjusted EBITDA** | **Cash flow from operations** | **Dividends** |
| Reported | 12,550.0 | 7,449.0 | 2,430.0 | 1,356.0 | 191.0 | 2,400.0 | (96.0) | 251.0 |
| **S&P Global Ratings' adjustments** | | | | | | | | |
| Cash taxes paid | -- | -- | -- | -- | -- | (402.0) | -- | -- |
| Cash interest paid | -- | -- | -- | -- | -- | (189.0) | -- | -- |
| Reported lease liabilities | 462.0 | -- | -- | -- | -- | -- | -- | -- |
| Debt-like hybrids | 20.0 | (20.0) | -- | -- | -- | -- | -- | -- |
| Intermediate hybrids reported as equity | 1,062.5 | (1,062.5) | -- | -- | 11.5 | (19.5) | (19.5) | (19.5) |
| Postretirement benefit obligations/deferred compensation | 305.3 | -- | 6.0 | 6.0 | 4.0 | -- | -- | -- |
| Accessible cash and liquid investments | (477.0) | -- | -- | -- | -- | -- | -- | -- |
| Capitalized interest | -- | -- | -- | -- | 11.0 | -- | -- | -- |
| Dividends received from equity investments | -- | -- | 31.0 | -- | -- | -- | -- | -- |
| Deconsolidation/consolidation | (1,528.0) | -- | -- | -- | -- | -- | -- | -- |
| Asset-retirement obligations | 869.3 | -- | -- | -- | 2.0 | -- | -- | -- |
| Income (expense) of unconsolidated companies | -- | -- | (60.0) | -- | -- | -- | -- | -- |
| Nonoperating income (expense) | -- | -- | -- | 2.0 | -- | -- | -- | -- |
| Reclassification of interest and dividend cash flows | -- | -- | -- | -- | -- | -- | (189.0) | -- |
| Noncontrolling interest/minority interest | -- | 689.0 | -- | -- | -- | -- | -- | -- |
| EBITDA: Other | -- | -- | (7.0) | (7.0) | -- | -- | -- | -- |
| Total adjustments | 714.0 | (393.5) | (30.0) | 1.0 | 28.5 | (610.5) | (208.5) | (19.5) |
| **S&P Global Ratings' adjusted amounts** | | | | | | | | |
| | **Debt** | **Equity** | **EBITDA** | **EBIT** | **Interest expense** | **Funds from operations** | **Cash flow from operations** | **Dividends paid** |
| Adjusted | 13,264.0 | 7,055.5 | 2,400.0 | 1,357.0 | 219.5 | 1,789.5 | (304.5) | 231.5 |

## Liquidity: Adequate

We consider TenneT's liquidity to be adequate for the next 12 months. As of March 31, 2021, we expect that its sources of liquidity will exceed uses by more than 1.2x over this period.

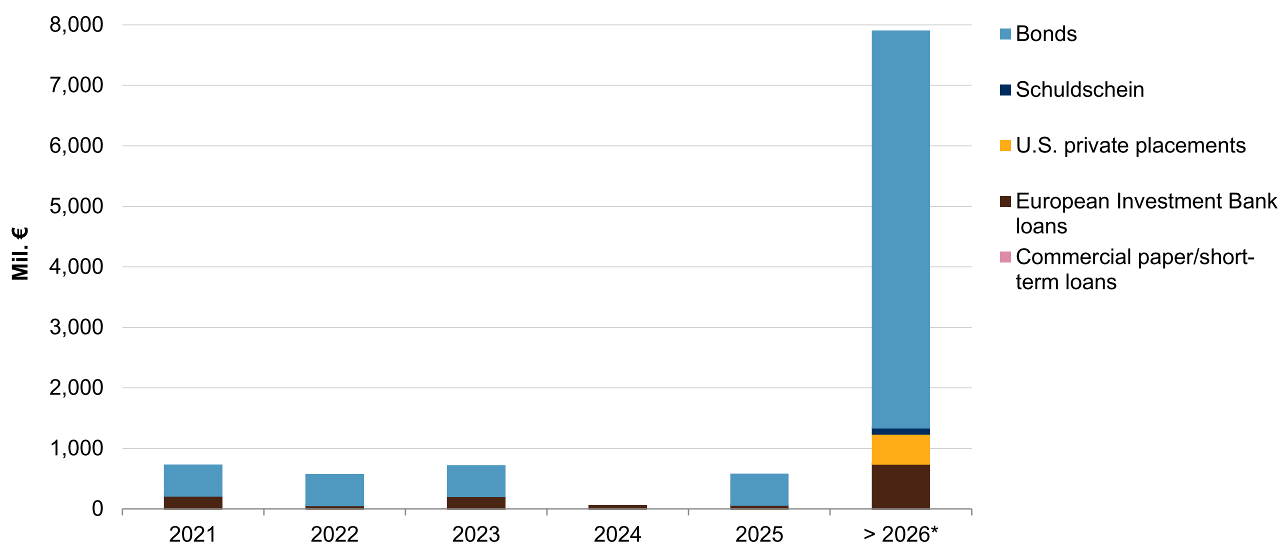
We understand that there are no restrictive covenants in the documentation for any of the company's debt.

| Principal liquidity sources | Principal liquidity uses |
| --- | --- |
| • Unrestricted cash of about €100 million;<br>• Available undrawn committed bank facilities of €3.3 billion; €300 million maturing in November 2024; and €3 billion in November 2025;<br>• Committed undrawn project related EIB facility of €250 million; and<br>• Cash FFO and working capital inflow of about €3 billion. | • About €1 billion in debt maturing over the next 12 months;<br>• Capex of up to €4 billion; and<br>• Dividend payments of €311 million. |

## Debt maturities

**Chart 4**

**TenneT Debt Maturity Schedule**




*Well-balanced debt repayments of between €500 million and €800 million per year for the coming decade.

Source: TenneT.

**Environmental, Social, And Governance**

TenneT has a solid track record of managing its grid to high standards in terms of quality, security, and safety. We expect the company to ensure a constant security of supply, despite greater operational complexity stemming from integrating more renewable capacity into its network. Greater use of digitalization and data platforms within its processes should help TenneT fulfill its key social role as a TSO in both the Netherlands and Germany.

TenneT is continuously extending its capex program to adapt to ambitious energy transition targets in both countries (we estimate aggregate investments of €50 billion-€60 billion will be deployed over the coming 10 years: about two-thirds for German offshore and onshore; the remaining for Dutch offshore and onshore capacity integration). TenneT is one of the largest green debt issuers in Europe (over €10 billion outstanding), including €2.1 billion in green hybrid bonds.

Because TenneT's asset base is critical for both countries, it is subject to close regulatory and political scrutiny, reinforcing the need for strong governance. Although the interests of TenneT's regulatory stakeholders are currently aligned and we view the sole owner, the Dutch Ministry of Finance, as supportive, if TenneT's stakeholders' interests diverge then governance challenges could arise.

## Government Influence

We base our view of a moderately high likelihood of government support for TenneT on our assessment of the company's:

- Important role for the Dutch government, given its strategic importance for the domestic energy sectors as the monopoly owner and operator of the Dutch electricity TSO network. The ongoing equity contributions illustrate TenneT's importance for the Dutch government; and
- Strong link with the Netherlands, since TenneT is currently fully owned by the Dutch government and we believe it will likely remain majority state-owned.

Our assessment of the likelihood of extraordinary support is lower for TenneT than for other European TSOs because of the increasing dominance of TenneT's German operations. We consider that the Dutch government could find it politically difficult to provide full and timely support to TenneT if it encounters financial difficulty due to problems in its German operations.

## Issue Ratings - Subordination Risk Analysis

### Capital structure

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

TenneT is the biggest corporate issuer of green senior unsecured debt in the Netherlands (above €8 billion outstanding). In addition, TenneT successfully placed its second green hybrid benchmark bond in July 2020. In total, green bonds amounted to €10.5 billion as of Dec. 31, 2020.

### Analytical conclusions

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

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

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

## Ratings Score Snapshot

### Issuer Credit Rating

A-/Stable/A-2

### Business risk: Excellent

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

### Financial risk: Aggressive

- **Cash flow/leverage:** Aggressive

### Anchor: bbb

### Modifiers

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

### Stand-alone credit profile : bbb

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

## Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
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## Related Research

- Bulletin: Dutch Regulatory Proposal Confirms Potential Pressure On Electricity And Gas Distribution Operators' Credit Metrics, April 22, 2021
- The Hydrogen Economy: Storage Is Paramount For Utilities In The Long Term, Apr. 22, 2021
- The Energy Transition And The Diverging Credit Path For European Utilities, Feb. 16, 2021
- The Energy Transition And What It Means For European Power Prices And Producers: January 2021 Update, Jan. 27, 2021
- Industry Top Trends 2021 EMEA Utilities, Dec. 10, 2020
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- Recent Rating Reviews On EMEA Utilities Reflect The Sector's Strength Against COVID-19 Shock, April 7, 2020
- EMEA Utilities Should Withstand COVID-19 Better Than Most Sectors, March 24, 2020
- Bulletin: German Federal Court Overrules Electricity And Gas Utilities' Hopes For Regulatory Remuneration, July 12, 2019
- Dutch Electricity And Gas Networks: Why We See The Regulatory Frameworks As Supportive, May 15, 2019
- Why We See Germany's Electricity And Gas Regulatory Framework As Supportive, Nov. 21, 2016

## Business And Financial Risk Matrix

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

## Ratings Detail (As Of May 17, 2021)*

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

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

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