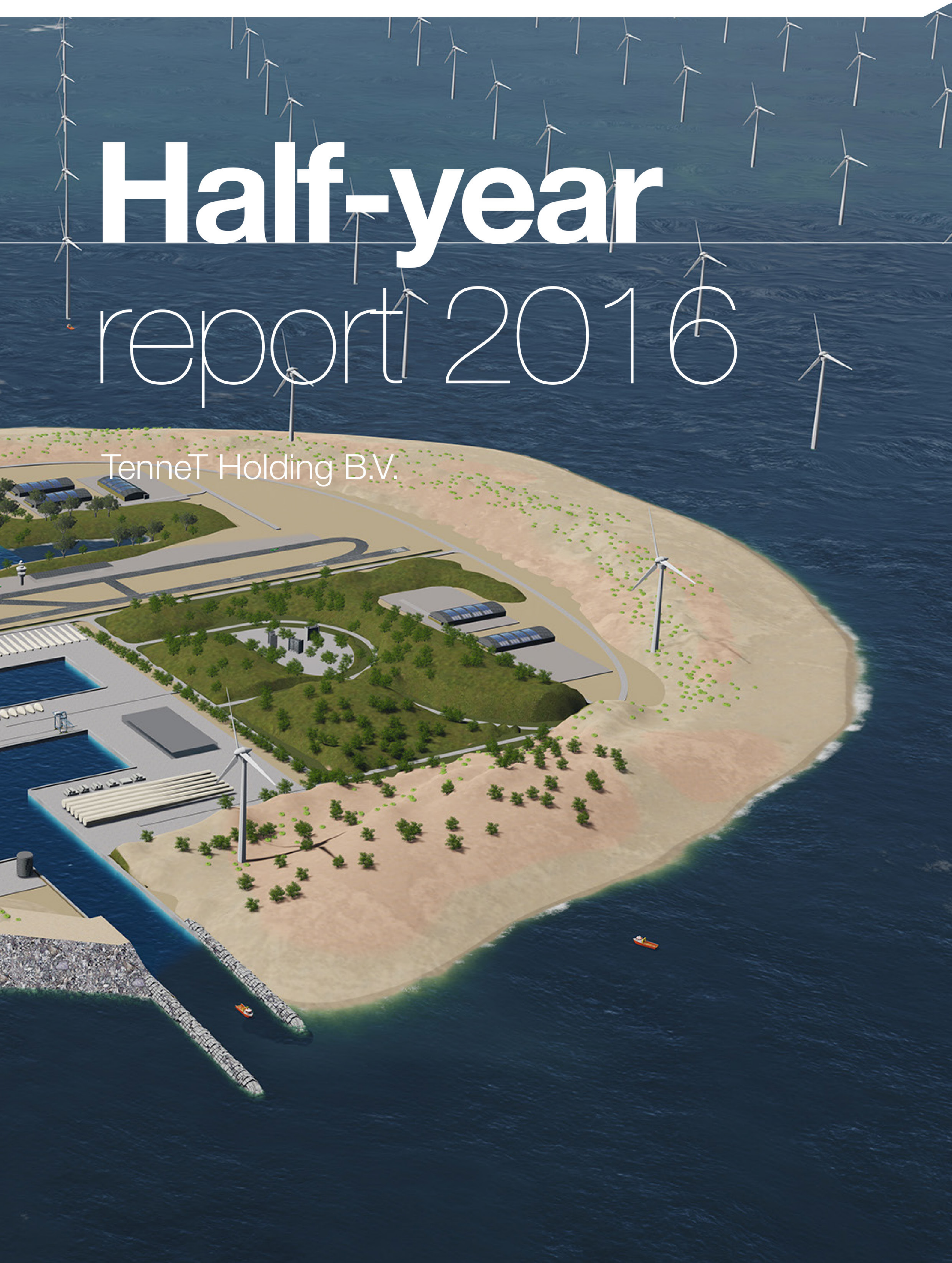
Half-year report 2016

TenneT Holding B.V.



Interim report

The large-scale transition to renewable energy is significantly changing the dynamics of electricity supply and transportation. At the same time, the dependence on electricity continues to increase, something which demands continuous reliability levels. To cope with these developments, further integration of the North West European electricity market is needed. As a leading transmission system operator, our mission is to provide security of supply in the markets we serve by developing an integrated and sustainable electricity market in North Western Europe. This allows us to serve our customers and create value for our stakeholders.

In the first half of 2016, there were several noteworthy developments in pursuit of our mission. These included the introduction of our vision on a North Sea Infrastructure, our appointment by the Dutch State as offshore grid operator and the German State's decision to build the SuedOstLink.

Key figures

	First half 2016	First half 2015
Grid availability (%)	99.9999%	99.9976%
Carbon Footprint (gross tonnes CO_2e)	1,142,160	1,007,216
Lost Time Injury Frequency (incl. contractors) (LTIF)	3.3	2.3
Based on underlying financial information (EUR million)	**First half 2016**	**First half 2015**
Revenue	1,546	1,395
EBIT	414	490
Investments	875	1,196
Based on underlying financial information (EUR million)	**30 June 2016**	**31 December 2015**
Assets	16,881	15,424
Net interest bearing debt, adjusted	6,682	5,703
Equity	3,736	3,803

Key events & interim results

Safety

The safety of our employees and contractors is a top priority for us and we continually strive for zero work-related incidents and accidents. As such, we deeply regret that an employee from Liandon, one of our contractors, was fatally injured in a work accident in February 2016. The accident occurred at a 150kV substation jointly operated by TenneT and Alliander.

The increase of our LTIF to 3.3 has high attention of management. We continually strive for zero work-related incidents and accidents and will do our utmost to implement the learnings from past incidents.

Operations

In early January we encountered a rare phenomenon called 'line galloping' in the north of the Netherlands. Line galloping occurs in exceptional circumstances where ice forms on power lines due to a combination of specific temperature, humidity and wind conditions. This ice enables wind to get a hold on the power lines, causing them to move back and forth. Although this phenomenon caused voltage dips in our transmission network, there were no outages and our grid availability remained at an uninterrupted, high level.

In Germany, we face new technological challenges following the cable failures of the DolWin2 land cable shortly after energisation of the system. A root cause analysis is ongoing and the supplier has started repair and replacement works. The issue has so far not arisen at other (offshore) connections.

In line with previous periods our gross carbon footprint has increased, mainly because of increasing grid losses resulting from the larger geographical spread of renewables.

Offshore grid

In March, the Dutch Senate approved an amendment to the Electricity Act, providing the required legal basis for the development of offshore wind energy in the Dutch part of the North Sea. Subsequently, the Dutch regulator ACM certified TenneT as offshore grid operator in July. As a result, the Dutch minister of economic affairs can now officially appoint TenneT as developer and operator of offshore grid connections in the Dutch part of the North Sea. In the coming years, TenneT expects to build five identical platforms with a total capacity of 3,500 MW to transport wind energy to the Dutch onshore grid.

North Sea grid development

In June, we presented our vision for developing a large-scale energy system in the North Sea to help shape the North West European energy transition towards achieving the 2050 global warming reduction targets. This reflects our view that the North West European electricity market needs to become more integrated. Our vision for an integrated energy market builds on the political declaration on energy cooperation between the North Sea countries and calls for a coordinated rollout of North Sea infrastructure on which to build the future energy system. This 'hub and spoke' principle seeks to make ambitious carbon footprint reduction targets feasible and affordable. Central to the vision is the building of an artificial island in the middle of the North Sea.

For more information on our vision on the North Sea infrastructure and to view an animation, please visit our website.

Underground cabling

A federal law prioritising underground cabling for all German direct current (DC) cable projects came into effect in January 2016. This law affects various projects we are working on, including the north-south SuedLink line, which will require a change of route to incorporate the cabling. A higher share of underground cabling will raise investment costs, making it significantly more expensive than the conventional overhead lines originally planned. In the Netherlands, we continue to be involved in talks with local communities on options such as underground cabling.

Underlying[1] operating results

Underlying revenue rose to EUR 1,546 million. This increase is driven by our growing asset base and our investments in recent years, as well as by the increase in regulatory reimbursement from increased system service expenses. In order to ensure security of supply, we increased our feed-in management and grid reserve measures, particularly in Germany. As these system service expenses are compensated on a pass-through basis, this does not affect our underlying EBIT.

Consolidated underlying EBIT for the six-month period to 30 June 2016 amounted to EUR 414 million. This is EUR 76 million below EBIT in the same period a year earlier, mainly due to the impact of special items. EBIT in the first half of 2015 was positively affected by the release of offshore liability provisions (EUR 33 million) and an incidental gain from the sale of APX shares (EUR 12 million). The result for the first half of 2016, was negatively impacted by a change of discount factor applied to German pension provisions which will be settled in future tariffs. In addition, with many of our German offshore platforms coming into operation, operational and maintenance activities have increased, causing a reduction of the temporary positive difference between actual spend and fixed percentage reimbursement during construction and the testing phase. Comparing the first half of 2016 to the same period in 2015, the impact decreased by EUR 17 million.

Apart from special items, EBIT decreased due to several smaller regulatory effects and higher depreciation charges resulting from our growing asset base. These effects were partly offset by the increase in revenue from the return on capital invested in (large) German projects.

[1] Monitoring and managing the performance of our business is based on 'underlying' financial information and not on IFRS reported financials. Underlying financial information involves the recognition of regulatory receivables and payables which – based on the current regulatory framework – can be recouped or are required to be returned through future grid tariffs. We believe this underlying financial information better represents our actual business and financial performance, and therefore better reflects economic reality. The financial information in the interim condensed consolidated financial statements, as presented from page 7 onwards, reflect the IFRS reported financials. These differ from the 'underlying' financial information presented above.

Investments

We continue to invest in our grid in order to maintain a high security of supply and to facilitate energy transition in the Netherlands and Germany. Capital expenditure (capex) totalled EUR 875 million in the six months ending 30 June 2016. Our main projects under construction are:

- Netherlands: Randstad 380 kV; South-West 380 kV; North-West 380 kV and Doetinchem-Wesel.
- Germany Onshore: the connection between Wahle (near Hannover in Lower Saxony) and Mecklar (in Hessen); and the connection between Brunsbüttel and Denmark (Westküstenleitung).
- Germany Offshore: DolWin3, Borwin3 and Nordergründe.

In the Netherlands we received approval to start building the interconnector between Doetinchem and Wesel. In Germany, TenneT was officially appointed to build the connection Wolmirstedt–Isar, now called SuedOstLink. After SuedLink, this will be TenneT's second-largest DC project in Germany. Finally, all permits for the COBRA cable (a joint project between TenneT in the Netherlands and our Danish counterpart Energinet.dk) have been received and we can now start the construction phase. The COBRA cable is a new DC connection (interconnector), linking the Dutch and Danish high-voltage grids. This cable will be over 350 kilometres long subsea and will have a total capacity of 700 MW, which is equivalent to the annual electricity consumption of 700,000 households.

For more information on our projects, see the project section of our website.

Financing

In order to execute our extensive investment programme and deal with operational and regulatory changes, we need to maintain our solid financial position. One aspect of this is having access to financial markets at favourable conditions. Senior unsecured credit ratings for TenneT Holding B.V. remain unchanged in 2016 and were reaffirmed by Standard & Poor's (A- / stable outlook) and Moody's Investor Service (A3 / stable outlook) in May 2016.

In addition, Moody's Investor Service awarded our newly-issued green medium-term notes a Green Bond Assessment of GB1 (Excellent). Also, Oekom assessed our social and environmental performance and reaffirmed our overall corporate corporate social responsibility (CSR) rating of B- (status Prime) in 2016. These outcomes benefit our investor appeal from a CSR-perspective (see also our financial publications).

Net interest-bearing debt position

Over the first six months of 2016, TenneT's long-term interest-bearing borrowings increased by EUR 1.5 billion as we completed our first green Schuldschein (a type of privately-placed German debt instrument) in an amount of EUR 500 million in May and issued EUR 1 billion of green bonds in June. Both instruments are used to finance projects relating to the transmission of renewable electricity from offshore wind power farms in Germany.

The EUR 500 million green 'Schuldschein' was issued in six tranches with maturities ranging from six to 20 years. The interest coupons vary from 0.646% to 2.000%.The EUR 1.0 billion green bond issue comprised two tranches of EUR 500 million each, maturing in 2026 and 2036. The interest coupons were set at 1.000% and 1.875%, respectively.

Equity

Our underlying equity balance slightly decreased to EUR 3,736 million as per 30 June 2016. This decrease has been caused by dividend payments to our shareholder (EUR 196 million) and the holders of our hybrid securities (EUR 33 million), and an actuarial loss of EUR 43 million (net of tax) on our German pension obligation due to a decrease in the market interest rates. These effects were partly offset by our net income for the period.

On 12 July 2016, TenneT's shareholder, the Dutch State represented by the Ministry of Finance, announced its intention to contribute up to EUR 1.2 billion of additional equity over the period 2017-2020 to finance TenneT's Dutch onshore- and offshore investment portfolio. The equity contribution is subject to parliamentary approval over the course of 2016.

Risk management update

We evaluated the strategic risk position and, in comparison to the strategic risks presented in our Integrated Annual Report 2015, identified the following developments during the first half of 2016:

- The risk of delays in realising large onshore projects in Germany has increased due to the time needed for completing planning & licensing procedures as well as the required additional underground cabling on several projects. Consequently, redispatch and feed-in management costs particularly in the north of Germany are expected to increase substantially.
- Recent incidents suggest that there is a higher risk of a terrorist attack (physical or cyber) aimed at disrupting society. Security measures and security contingency plans have our ongoing attention and we liaise closely with national and international government and security offices to ensure the safety of our people and security of supply.
- Increased dynamics in load and generation mix due to the further integration of renewables, combined with international market developments, are increasing the challenges of balancing our grid. A continuous focus on this changing landscape and investing in a future-proof grid is essential with respect to maintaining a high security of supply.

Statement of responsibility

We confirm that, to the best of our knowledge, the interim condensed consolidated financial statements, which have been prepared in accordance with IAS 34, ‘Interim Financial Reporting’ as adopted by the European Union, give a true and fair view of TenneT’s financial position, financial performance and cash flows as a whole for the period ended 30 June 2016. We also confirm that the interim report includes a fair review of the important events that occurred during the period, as well as a fair review of TenneT's performance, results and position, and an update of the most significant risks and uncertainties we face.

Executive Board TenneT Holding B.V.

J.M. Kroon *
U.T.V. Keussen *
B.G.M. Voorhorst *
O. Jager *
A.A. Hartman
W. Breuer

* Statutory Director

Interim condensed consolidated financial statements

Interim condensed consolidated statement of income

For the six month period ended 30 June (EUR million)

	Notes	2016		2015	
Revenue			**1,386**		**1,408**
Grid expenses	3.1	709		601	
Depreciation and amortisation of assets		290		240	
Other expenses		176		109	
Total operating expenses			**1,175**		**950**
Share in profit of joint ventures and associates			37		37
Operating profit			**248**		**495**
Finance result			-72		-56
Profit before income tax			**176**		**439**
Income tax expense			45		116
Profit for the period			**131**		**323**
Profit attributable to:					
Equity holders of ordinary shares		74		246	
Hybrid securities		17		17	
Owners of the company			**91**		**263**
Non-controlling interests	6.1.2		40		60
Profit for the period			**131**		**323**
Basic and diluted earnings per share (EUR)	3		410		1,270

Interim condensed consolidated statement of comprehensive income

For the six month period ended 30 June (EUR million)

	Notes	2016	2015
Profit for the period		**131**	**323**
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Amortisation of hedges		-	2
Reclassification of exchange differences	6.1.2	-	2
Items not to be reclassified to profit or loss in subsequent periods:			
Re-measurement of defined benefit pensions	6.1.1	-61	-
Taxation	6.1.1	18	-
Total other comprehensive income for the period		**-43**	**4**
Total comprehensive income for the period (net of tax)		**88**	**327**
Comprehensive income attributable to:			
Equity holders of ordinary shares		31	250
Hybrid securities		17	17
Owners of the company		**48**	**267**
Non-controlling interests	6.1.2	40	60
Total comprehensive income for the period (net of tax)		**88**	**327**

Interim condensed consolidated statement of financial position

(EUR million)

Assets	Notes	30 June 2016	31 December 2015
Non-current assets			
Tangible fixed assets	4.1	12,698	12,105
Intangible assets		112	120
Investments in associates and joint ventures		390	334
Deferred tax assets		3	2
Other financial assets		79	86
Total non-current assets		**13,282**	**12,647**
Current assets			
Account- and other receivables	5.1	1,945	1,650
Other current assets		82	76
Cash and cash equivalents	6.3	458	52
		2,485	**1,778**
Total assets		**15,767**	**14,425**

Equity and liabilities	Notes	30 June 2016	31 December 2015
Equity			
Equity attributable to ordinary shares	6.1.1	2,555	2,712
Hybrid securities	6.1.1	504	520
Equity attributable to owners of the company		**3,059**	**3,232**
Non-controlling interests	6.1.2	960	956
Total equity		**4,019**	**4,188**
Non-current liabilities			
Borrowings	6.2	5,733	4,249
Provisions		847	711
Deferred income		271	269
Deferred tax liability		315	354
Other liabilities		7	2
Total non-current liabilities		**7,173**	**5,585**
Current liabilities			
Borrowings	6.2	42	395
Provisions		163	180
Account- and other payables	5.2	4,210	3,932
Other current liabilities		76	128
Bank overdrafts	6.3	84	17
Total current liabilities		**4,575**	**4,652**
Total equity and liabilities		**15,767**	**14,425**

Interim condensed consolidated statement of changes in equity

For the six month period ended 30 June (EUR million)

	Notes	Attributable to equity holders of the company								Non-controlling interest	Total equity
		Paid-up and called-up capital	Share premium reserve	Other reserves	Retained earnings	Unappropriated result	**Equity attributable to ordinary shares**	Hybrid securities	**Equity attributable to owners of the company**		
Balance at 31 December 2014		**100**	**600**	**2**	**1,621**	**493**	**2,816**	**520**	**3,336**	**852**	**4,188**
Total comprehensive income		-	-	4	-	246	250	17	267	60	327
Dividends paid		-	-	-	-	-117	-117	-	-117	-12	-129
Distribution on hybrid securities		-	-	-	-	-	-	-33	-33	-	-33
Taxation on distribution on hybrid securities		-	-	-	-	8	8	-	8	-	8
Sale of subsidiary	6.1.2	-	-	-	-	-	-	-	-	-4	-4
Capital contribution		-	-	-	-	-	-	-	-	2	2
Appropriation remaining prior year profit		-	-	-	384	-384	-	-	-	-	-
Balance at 30 June 2015		**100**	**600**	**6**	**2,005**	**246**	**2,957**	**504**	**3,461**	**898**	**4,359**
Balance at 31 December 2015		**100**	**600**	**5**	**2,012**	**-5**	**2,712**	**520**	**3,232**	**956**	**4,188**
Total comprehensive income		-	-		-43	74	31	17	48	40	88
Dividends paid	6.1	-	-	-	-196	-	-196	-	-196	-36	-232
Distribution on hybrid securities	6.1.1	-	-	-	-	-	-	-33	-33	-	-33
Taxation on distribution on hybrid securities	6.1.1	-	-	-	-	8	8	-	8	-	8
Appropriation remaining prior year profit		-	-	-	3	-3	-	-	-	-	-
Balance at 30 June 2016		**100**	**600**	**5**	**1,776**	**74**	**2,555**	**504**	**3,059**	**960**	**4,019**

Interim condensed consolidated statement of cash flows

For the six month period ended 30 June (EUR million)

	Notes	2016		2015	
Operational activities					
Operating profit for the period			**248**		**495**
Non-cash adjustments to reconcile profit to net cash flows:					
Depreciation, amortisation and impairment of assets		290		240	
Share in profit of joint ventures and associates		-37		-37	
Dividends received from joint ventures and associates		-		28	
Movements in other items		7		-48	
			260		**183**
Working capital adjustments excluding EEG working capital			-136		105
Income tax paid			-91		-192
Net cash flows from operating activities excluding EEG working capital			**281**		**591**
EEG working capital adjustments	5.1, 5.2		159		361
Net cash flows from operating activities			**440**		**952**
Investing activities					
Purchase / sale of tangible and intangible fixed assets		-849		-1,006	
Sale / acquisition of subsidiary	6.1.2	-		-295	
Capital contribution to joint ventures and associates		-19		-32	
Proceeds from repayment of financial assets		-		12	
Interest received		-		1	
Net cash flows used in investing activities			**-868**		**-1,320**
Financing activities					
Proceeds from borrowings	6.2	1,487		1,167	
Repayment of borrowings	6.2	-356		-684	
Interest paid		-99		-99	
Dividends paid to ordinary shareholder of the company	6.1.1	-196		-117	
Distribution on hybrid securities	6.1.1	-33		-33	
Dividends paid to non-controlling interests	6.1.2	-36		-12	
Proceeds from capital contributions by non-controlling interests	6.1.2	-		2	
Net cash flows from financing activities			**767**		**224**
Net change in cash and cash equivalents			**339**		**-144**
Cash and cash equivalents at 30 June		374		273	
Cash and cash equivalents at 1 January		35		417	
			339		**-144**

Notes to the interim condensed consolidated financial statements

1. Basis for reporting

1.1 General

TenneT Holding B.V. is a leading electricity transmission system operator with activities in the Netherlands and in a large part of Germany. In the Netherlands, our activities are carried out by TenneT TSO B.V. and its subsidiaries. In Germany, our work is performed by TenneT GmbH & Co. KG and its subsidiaries.

As at 30 June 2016, The State of the Netherlands holds the entire issued share capital of TenneT Holding B.V. Furthermore, TenneT Holding B.V. has issued hybrid securities which are deeply subordinated securities and are considered as part of equity attributable to equity holders of the company. The head office and legal seat of the Group is located in Arnhem, the Netherlands.

The interim condensed consolidated financial statements of TenneT Holding B.V. and its subsidiaries (hereafter referred to as 'TenneT', 'the company' or 'the Group') for the six month period ended 30 June 2016 were prepared by the Executive Board and authorised for issue in accordance with a resolution of the Executive Board on 28 July 2016. These interim condensed consolidated financial statements have been reviewed by Ernst & Young Accountants LLP, but have not been audited.

1.2 Basis for preparation

The interim condensed consolidated financial statements for the six month period ended 30 June 2016 have been prepared in accordance with IAS 34 'Interim financial reporting' as adopted by the European Union. They do not contain all information and disclosures required in the annual financial statements and should be read in conjunction with the Group's financial statements as at 31 December 2015, published on 3 March 2016.
The consolidated financial statements are presented in euros and all values are rounded to the nearest million (EUR '000'000), except when indicated otherwise.

TenneT’s operations are not materially affected by seasonal influences.

TenneT has adopted the going concern basis in preparing its interim condensed consolidated financial statements. TenneT meets its day-to-day working capital requirements through its (bank) credit lines. The Executive Board has a reasonable expectation that TenneT has adequate resources to continue on a going concern basis for the foreseeable future.

1.3 Accounting policies and changes in accounting policies

The accounting policies applied in these interim condensed consolidated financial statements are consistent with those applied in the preparation of the 2015 annual financial statements, except for the adoption of new standards, amendments and interpretations effective as adopted by the EU as of 1 January 2016. Since none of these new standards, amendments and interpretations have a material impact on the interim condensed consolidated financial statements, these are not further described. The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

Furthermore, the classification of the statement of financial position has been reassessed and as a result certain items have been reclassified to conform with the current year's presentation.

2. Segment information

2.1 Segment analysis

TenneT generates the majority of its business from regulated activities. For management information purposes TenneT´s Executive Board considers the performance of its regulated activities in the Netherlands and in Germany separately. This segmentation based on applicable regulatory framework is the key determinant for decision making and financial management of the business. In conformity with prior years, non-regulated activities are also considered

separately. Financing activities (including finance income and expense) are managed on a Group basis and are not allocated to the segments.
Transfer prices between operating segments are on an arm´s length basis in a manner similar to transactions with third parties. These intercompany transactions are eliminated at a consolidated level.

The accounting principles used for the operating segments differ from IFRS, instead underlying financial information is used. Underlying financial information is based on the principle of recognising regulatory assets and liabilities for all of TenneT's regulated activities. This implies that amounts resulting from past events and which are allowed or required to be settled in future tariffs are recorded as an asset or liability, respectively (see note 2.2 for further reference). TenneT's Executive Board believes that the presentation of underlying financial information leads to a sound, consistent and transparent financial insight into past and future business developments.

The underlying segment information is as follows:

	Six month period ended 30 June 2016			**30 June 2016**	
(EUR million)	**Revenue**	**EBIT**	**Investments**	**Assets**	**Liabilities**
TSO Netherlands	334	56	233	4,474	2,983
TSO Germany	1,209	324	642	14,253	9,848
Non-regulated companies	14	37	-	751	156
	1,557	**417**	**875**	**19,478**	**12,987**
Eliminations and adjustments	-11	-3	-	-2,597	158
Consolidated underlying information	**1,546**	**414**	**875**	**16,881**	**13,145**

	Six month period ended 30 June 2015			31 December 2015	
(EUR million)	Revenue	EBIT	Investments	Assets	Liabilities
TSO Netherlands	318	65	258	4,329	2,873
TSO Germany	1,063	376	937	13,204	8,807
Non-regulated companies	23	52	1	358	194
	1,404	**493**	**1,196**	**17,891**	**11,874**
Eliminations and adjustments	-9	-3	-	-2,467	-253
Consolidated underlying information	**1,395**	**490**	**1,196**	**15,424**	**11,621**

2.2 Regulatory deferral accounts: reconciliation to IFRS figures

The financial information presented in the segment information and board report is based on underlying financial information, which differs from IFRS with respect to the recognition of regulated assets, regulated liabilities and auctions receipts, and the measurement of tangible fixed assets. Consequently, the aforementioned results in different deferred tax balances in underlying financial information compared to IFRS reported figures.

The reconciliation of the underlying information to the reported IFRS figures is as follows:

Reconciliation underlying financial information to IFRS	EBIT	Assets	Liabilities	Recovery/reversal period (years)
2016 (EUR million)	Six month period ended 30 June 2016	30 June 2016		
Consolidated underlying information	**414**	**16,881**	**13,145**	
To be settled in tariffs	-210	-759	-83	0 - 5
Auction receipts	30	-	-1,078	0 - 30
Investment contributions	-3	-	-275	0 - 32
Maintenance of the energy balance	6	-	-33	0 - 1
Difference in tangible fixed assets	11	-355	-	0 - 32
Effect on deferred tax balances	-	-	72	0 - 32
Consolidated IFRS financial statements	**248**	**15,767**	**11,748**	

Reconciliation underlying financial information to IFRS	EBIT	Assets	Liabilities	Recovery/reversal period (years)
2015 (EUR million)	Six month period ended 30 June 2015	31 December 2015		
Consolidated underlying information	**490**	**15,424**	**11,621**	
To be settled in tariffs	-100	-633	-79	0 - 5
Auction receipts	94	-	-1,101	0 - 30
Investment contributions	-6	-	-280	0 - 33
Maintenance of the energy balance	15	-	-39	0 - 1
Difference in tangible fixed assets	2	-366	-	0 - 33
Effect on deferred tax balances	-	-	115	0 - 33
Consolidated IFRS financial statements	**495**	**14,425**	**10,237**	

To be settled in tariffs

Revenue surpluses and deficits resulting from differences between expected (ex ante) and realised (ex post) electricity transmission volumes are incorporated in tariffs of subsequent years. In the underlying financial information these surpluses and deficits are recorded in the statement of financial position as 'to be settled in tariffs'. This position comprises the increase in system services expenses resulting from higher feed-in and expenses for control and reserve capacity in the first six months of 2016 compared to same period as in 2015.

Auction receipts & investment contributions

Auction receipts result from auctioning the available transmission capacity on cross-border interconnections. The resulting receipts are not at TenneT's free disposal. In accordance with European law, auction receipts are used to finance investments in cross-border interconnections. In the Netherlands, the ACM and TenneT agreed in 2015 that remaining auction receipts shall be used to reduce future tariffs. The outstanding balance of auction receipts as at 31 December 2014 is refunded via the tariffs in eight years. In Germany, the use of auction receipts for investments is effectively achieved by reducing tariffs over a 30-year period. This approach is more or less similar to the treatment of investments contributions.

Investments financed using auction receipts are classified in underlying financial information as investment contributions included under 'Liabilities'. A periodic amount equal to the depreciation charges (plus a portion of the operating expenses) is released to the statement of income.

Under IFRS, auction receipts are recognised as revenue when realised.

Maintenance of the energy balance
As system manager of the high-voltage grid in the Netherlands, TenneT receives funds from performing certain statutory duties, such as the maintenance of the energy balance. The proceeds from these activities (i.e. imbalance settlements) may only be used once approved by the Office of Energy Regulation. Imbalance settlements collected in one year are used in a subsequent year to offset permitted revenue for the given subsequent year, effectively reducing transmission tariffs. Consequently, these amounts in the underlying financial information are recorded as a liability in the statement of financial position.

Difference in tangible fixed assets
Differences in tangible fixed assets occur due to the difference in accounting treatment of the regulatory deferral accounts and the related cash flows in order to determine the economic useful life and fair value (i.e. recoverable amount) of the assets resulting from acquisitions and used for impairment analysis. The difference in assets mainly relates to the decrease in value of the NorNed assets under IFRS and an impairment reversal only for the underlying figures, both recognised in December 2015.

3. Results for the period

3.1 Grid expenses

The increase in grid expenses is mainly related to higher feed-in, and control and reserve capacity expenses in the first six months of 2016 compared to prior year period. Using more reserve capacity to solve transmission restrictions led to higher compensation payments to reserve power plants. Feed-in volumes are increasing and subsequently more compensation to renewables plants for reducing their feed-in power to secure the security of supply in the grid was paid. Furthermore, in the past two years a significant number of offshore projects in Germany came into operations resulting in an increase of the operating and maintenance services in the first six month of 2016.

3.2 Other expenses

Other expenses were higher compared to 2015 due to (partial) release of provisions in 2015.

3.3 Earnings per share

The earnings per share has been calculated by dividing the profit for the period attributable to equity holders after adjustment for the distribution on hybrid securities, by the weighted average number of ordinary shares in issue during the period. The following reflects the income and share data used in the net income and basic and diluted earnings per share computations:

For the six month period ended 30 June (EUR million)	2016	2015
Profit for the period attributable to owners of the company	91	263
Allocation to hybrid securities	-17	-17
Tax effect on distribution to hybrid securities (note 6.1.1)	8	8
Profit for the period attributable to owners of the company adjusted for the allocation and distribution to hybrid securities	**82**	**254**
Weighted average number of ordinary shares in issues (in thousands)	200	200

4. Grid investments and related commitments

4.1 Tangible fixed assets

Tangible fixed assets increased by EUR 593 million to EUR 12,698 million (31 December 2015: EUR 12,105 million) mainly due to further offshore grid investments in Germany. At 30 June 2016, external commitments of EUR 2,394 million (31 December 2015: EUR 2,463 million) regarding the purchase of tangible fixed assets had been entered into.

5. Other invested capital including working capital and provisions

5.1 Account- and other receivables

Account- and other receivables comprise EEG ('Erneuerbare-Energien-Gesetz'; German Renewable Energy Act) related receivables, amounts to be invoiced, trade receivables, VAT- and other receivables. The increase in account- and other receivables by EUR 295 million to EUR 1,945 million at 30 June 2016 relates mainly to the increase in EEG related receivables. The EEG related receivables comprise of the outstanding invoices for the EEG levy, accrual for horizontal balancing (i.e. charges to other TSOs) and energy stock revenues.

The EEG related receivables of EUR 1,283 million (31 December 2015: EUR 980 million) are not at the Group's free disposal.

5.2 Account- and other payables

Account- and other payables comprise of EEG accounts payable, payables in respect of grid expenses, payables in connection with tangible fixed assets purchases, account-, interest- and other payables. The increase in account- and other payables is mainly related to the EEG accounts payable of EUR 2,488 million (31 December 2015; EUR 2,026 million). This is partly offset by a decrease in the grid expense accrual by EUR 185 million to EUR 808 million at 30 June 2016 resulting from lower wind feed-in volumes during the second quarter of 2016.

6. Capital structure and financing

6.1 Equity

6.1.1 Equity attributable to owners of the company

During the first six months of 2016 TenneT distributed a EUR 196 million common dividend to its ordinary shareholder (EUR 980 per share). Furthermore, TenneT paid a distribution to the holders of the hybrid securities of EUR 33 million. The tax effect on this distribution was EUR 8 million.
TenneT recognised directly in equity an actuarial loss of EUR 43 million (net of tax) on German pension obligations, as the discount rate changed from 2.5% (31 December 2015) to 1.4% (30 June 2016).

6.1.2 Non-controlling interests

Non-controlling interests and the proportion of the economic interests held by non-controlling interests in the Group's subsidiaries are as follows:

	Country	30 June 2016	31 December 2015
TenneT Offshore 2. Beteiligungsgesellschaft mbH ("TO2")	Germany	69%	69%
TenneT Offshore 8. Beteiligungsgesellschaft mbH ("TO8")	Germany	63%	63%
TenneT Offshore DolWin3 Beteiligungs GmbH & Co. KG ("TOD3")	Germany	63%	62%
TenneT Offshore DolWin3 Verwaltungs GmbH ("TODV")	Germany	63%	62%

Non-controlling interests are reflected on the basis of economic interests. The Group holds 51% of the voting rights in TO2, TO8, TOD3 and TODV.

Non-controlling interests as part of the total equity can be broken down as follows:

(EUR million)	TO2	TO8	TOD3	TODV	APX	Total
At 31 December 2015	**252**	**289**	**415**	**-**	**-**	**956**
Profit attributable to non-controlling interests	4	18	18	-	-	40
Dividends paid	-2	-34	-	-	-	-36
At 30 June 2016	**254**	**273**	**433**	**-**	**-**	**960**
At 31 December 2014	**229**	**230**	**385**	**-**	**8**	**852**
Profit attributable to non-controlling interests	13	30	16	-	1	60
Dividends paid	-	-7	-	-	-5	-12
Sale of subsidiary	-	-	-	-	-4	-4
Capital contribution	2	-	-	-	-	2
At 30 June 2015	**244**	**253**	**401**	**-**	**-**	**898**

As a result of the sale of APX in May 2015 there is no interest in APX remaining. Furthermore, in 2015 this sale lowered the cash and cash equivalents (EUR 295 million) and the reserve for exchange differences relating to APX's foreign operation (EUR -2 million) was recycled from equity to profit-or-loss.

6.2. Borrowings

	Carrying amount		Fair value		
(EUR million)	**30 June 2016**	31 December 2015	**30 June 2016**	31 December 2015	Hierarchy
Borrowings:					
- Borrowings – bonds	4,177	3,189	4,743	3,562	Level 1
- Borrowings - other	1,598	1,455	1,663	1,457	Level 2
	5,775	**4,644**	**6,406**	**5,019**	

Borrowings include bonds, loans, short term cash loans and commercial papers. Fair values of the bonds (level 1) are based on price quotations (unadjusted) and fair values of the other borrowings (level 2) are based on discounted cash flows. There have been no transfers between the fair value hierarchy levels. Fair value of the other financial instruments approximate their carrying amounts due to the short-term maturities of these instruments and therefore are not disclosed.

In the first six months of 2016 the following bonds and loans were issued (all redeemable at maturity):

(EUR million)	Maturity	2016
1.000% Bond 2016-2026 EUR 500 million	Jun-2026	497.8
1.875% Bond 2016-2036 EUR 500 million	Jun-2036	490.3
Non-current interest-bearing bonds		**988.1**
0.646% Schuldschein 2016-2022 EUR 77 million	May-2022	76.9
0.989% Schuldschein 2016-2024 EUR 100 million	May-2024	99.9
1.310% Schuldschein 2016-2026 EUR 55 million	May-2026	54.9
1.500% Schuldschein 2016-2028 EUR 50 million	May-2028	49.9
1.750% Schuldschein 2016-2031 EUR 43 million	May-2031	42.9
1.750% Schuldschein 2016-2031 EUR 95 million	May-2031	94.9
2.000% Schuldschein 2016-2036 EUR 80 million	May-2036	79.9
Non-current interest-bearing loans		**499.3**
Total issued loans and bonds		**1,487.4**

The short-term uncommitted credit lines increased to EUR 575 million. On 30 June 2016 EUR 84 million had been drawn from these facilities (31 December 2015, EUR 17 million). In addition, TenneT had a committed EUR 2.2 billion revolving credit facility ('RCF') and EUR 150 million of committed undrawn EIB (European Investment Bank) facility available as at 30 June 2016. There were no amounts outstanding under the RCF. In June 2016, the maturity date of the RCF was extended by one year to July 2021.

6.3 Cash, cash equivalents and bank overdrafts

	30 June 2016			31 December 2015		
(EUR million)	At free disposal	Not at free disposal	Total	At free disposal	Not at free disposal	Total
Collateral securities	-	49	49	-	42	42
Cash at bank	382	27	409	3	7	10
Cash and cash equivalents	**382**	**76**	**458**	**3**	**49**	**52**
Bank overdrafts	-84	-	-84	-17	-	-17
Total cash and cash equivalents used in cash flow statement	**298**	**76**	**374**	**-14**	**49**	**35**

7. Other information

7.1 Events after the reporting period

No significant events after the reporting period have occurred.

Independent auditor's review report

To: the Executive Board of TenneT Holding B.V.

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements for the six month period ended 30 June 2016 of TenneT Holding B.V., Arnhem, which comprise the interim condensed consolidated statement of financial position as at 30 June 2016, the interim condensed consolidated statement of income, the interim condensed consolidated statement of comprehensive income, the interim condensed consolidated statement of changes in equity and the interim condensed consolidated statement of cash flows for the six month period ended 30 June 2016, and the notes.

The Executive Board is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with IAS 34, 'Interim Financial Reporting' as adopted by the European Union. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope

We conducted our review in accordance with Dutch law including standard 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity'. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Dutch auditing standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements for the six month period ended 30 June 2016 are not prepared, in all material respects, in accordance with IAS 34, 'Interim Financial Reporting', as adopted by the European Union.

Zwolle, 28 July 2016

Ernst & Young Accountants LLP

Signed by A.E. Wijnsma

TenneT is a leading European electricity transmission system operator (TSO) with its main activities in the Netherlands and Germany. With over 22,000 kilometres of high-voltage lines we ensure a secure supply of electricity to 41 million end-users. TenneT is one of Europe's major investors in national and cross-border grid connections on land and at sea, bringing together the Northwest European energy markets and enabling the energy transition. We take every effort to meet the needs of society by being responsible, engaged and connected. **Taking power further.**

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