Integrated Annual Report TenneT 2012

TenneT
Taking power further

As an independent Transmission System Operator (TSO), TenneT bears a special responsibility for the Corporate Social Responsibility (CSR) dimensions of People, Planet and Profit. To reflect this, TenneT decided to integrate the CSR dimensions for the first time in this integrated annual report. In this manner the transparency of reporting is further increased.

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01 Profile

TenneT Holding B.V. (TenneT) is a leading electricity transmission system operator in the Netherlands through its subsidiary TenneT TSO B.V. and in a substantial part of Germany through its subsidiary TenneT TSO GmbH. With 20,000 kilometres of high-voltage lines and 36 million end users, it ranks among Europe's top 5 electricity transmission system operators.

Tasks

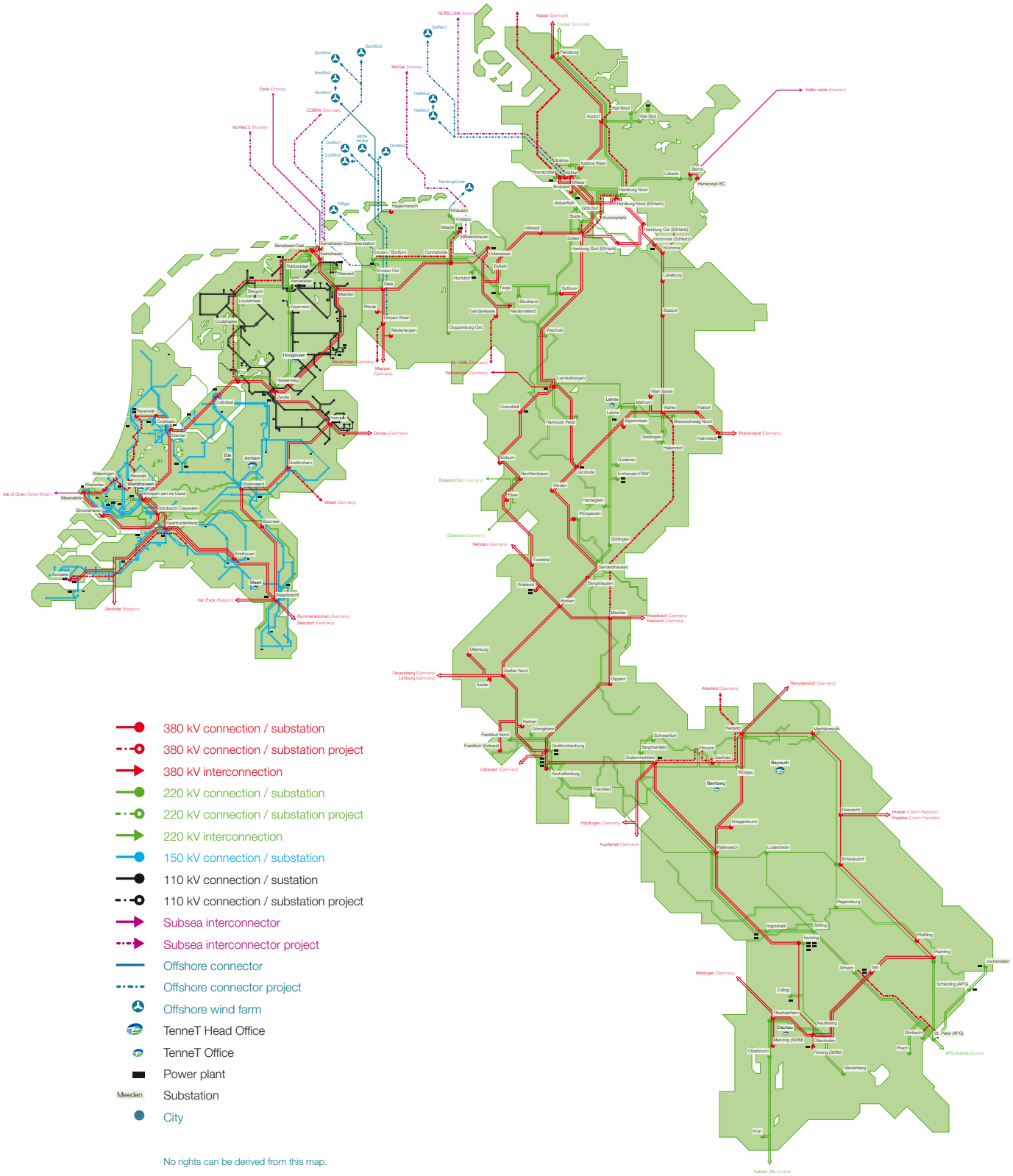
As an electricity transmission system operator (TSO), TenneT's principal tasks are to provide (1) power transmission services, by constructing and maintaining a robust high-voltage grid, (2) system services, by maintaining the balance between supply and demand of electricity 24 hours a day, 7 days a week and (3) facilitating the market in order to have a liquid, stable electricity market with prices in line with the surrounding countries.

These activities are governed by the provisions of relevant legislation in the Netherlands and Germany. Regulatory authorities oversee TenneT's compliance with these provisions. In the Netherlands, the regulated activities are carried out by TenneT TSO B.V. and its subsidiaries. In Germany, these tasks are carried out by TenneT TSO GmbH, TenneT Offshore GmbH and its subsidiaries.

In addition to its regulated activities, TenneT auctions cross-border transmission capacity and develops and manages electricity connections to other countries (interconnectors). TenneT holds shares in a number of Northwest European energy exchanges. These unregulated activities are the direct responsibility of TenneT Holding B.V. and are performed to support the energy market to ensure that it operates smoothly and efficiently. TenneT further manages part of the infrastructure required to send and receive broadcasting and telecom signals.


TenneT

02 Grid map



No rights can be derived from this map.

31 December 2012

03 Consolidated key figures

Group underlying financial information (in EUR million)			
	2012	**2011**	**2010**
Revenue [1]	1,789	1,545	1,323
EBIT	362	353	159
EBITDA	616	584	471
Interest-bearing debt	3,548	2,591	2,426
Equity	2,221	1,975	1,300
Total assets	10,342	8,808	7,054

Group KPIs			
	2012	**2011**	**2010***
Return on Invested Capital (pre-tax) [2]	8.6%	8.8%	10.6%
FFO/ net debt [2]	16.0%	19.4%	19.7%
EBIT growth [2]	24.3%	7.0%	446.5%

Corporate Social Responsibility Key Performance Indicators						
	2012	**2011**	**2012**	**2011**	**2012**	**2011**
	NL	**NL**	**D**	**D**	**Total**	**Total**
Grid losses (GWh)	823	819	1,659	1,531	2,482	2,350
SF6 emissions (kg)	653	742	564	560	1,217	1,302
Oil injections (litres)	9,506	5,653	n.a	n.a	9,506	5,653
Soil calamities (#)	13	29	12	3	25	32
Volatile Organic Compounds (kg)	54,054	20,032	25,111	26,400	79,165	46,432
Lost Time Incident Frequency (including contractors)	1.34	2.18	8.43	7.84	4.81	3.81

Employees & customers			
	2012	**2011**	**2010**
Number of employees (excluding external personnel) in FTEs	2,293	2,148	1,879
Number of external personnel in FTEs	365	254	266
Sickness leave (%)	2.8	2.5	2.8
Employee satisfaction	n.a.	7.7	7.8
Customer satisfaction	7.9	n.a.	7.2

Technical data

	2012		2011		2010	
	NL	**D**	**NL**	**D**	**NL**	**D**
Circuit lengths (in kilometres)						
450 kV DC [3]	420	0	420	0	290	0
380 kV	2,127	5.753	2,099	5,747	2,088	5,744
300 kV DC	-	200				
220 kV	745	4.851	693	4,845	670	4,844
155 kV	-	2				
150 kV	4,454	0	4,454	0	3,987	0
110 kV	2,232	100	2,164	100	2,084	100
Total circuit length (in kilometres)	**9,978**	**10.906**	**9,7**	**10,692**	**9,119**	**10,688**
Substations						
380 kV	26	65	24	64	23	61
220 kV	13	51	12	51	12	54
150 kV	177	0	177	0	148	0
110 kV	102	5	101	6	99	5
Total amount of substations	**318**	**121**	**314**	**121**	**282**	**120**
Converter Stations	**2**	**2**	**2**	**0**	**1**	**0**
Imports (GWh)	32,156	55,903	20,468	52,792	18,583	46,808
Exports (GWh)	15,046	47,397	11,834	40,603	12,808	40,691
220/380 kV grid data:						
- Interruptions	0 [5]	0	0	0	4	1
- Energy not supplied (MWh) [4]	0	0	0	0	53	0.8
110/150 kV grid data:						
- Interruptions	8	0	18	0	10	0
- Energy not supplied (MWh) [4]	127	0	362	0	879	0

1) In 2010 the German underlying financial information was based on the IFRS accounting policies. As of 2011 the underlying financial is harmonised. Further reference is made to notes 3.1 and 5 of the consolidated financial statements.
2) For definitions, refer to Abbreviations, definitions and ratios.
3) This concerns the 580 km HVDC NorNed cable and the 260 km HVDC BritNed cable. Statnett owns the northern part of the NorNed cable and TenneT the southern part, each part constituting 50% of the interconnector. BritNed: National Grid and TenneT both own 50% of the cable through their joint venture company BritNed Development Limited.
4) Includes all energy not supplied as a result of interruptions in the transmission of electricity to connections, irrespective of the connection's redundancy and regardless of whether the connected party is a producer (generation) or customer (load).
5) These figures are based upon contractual relations. Based upon technical definitions one 110/150 kV interruption (17 MWh energy not supplied) has been allocated to the 220 kV level in the Netherlands (NESTOR).

04 Report by the CEO

The energy world is changing rapidly, a development which continued strongly throughout 2012. The United States has a coal surplus as a result of focusing on (shale) gas, which has implications for the European market: coal has become more interesting from a cost perspective. This, in combination with the reduction in shipping tariffs as a result of the economic crisis and a low CO_2 price, has ensured that the energy production generated by coal has taken an increasingly important position. As a result, the cost-effectiveness of gas-fired power plants in particular has come under pressure. To a large extent, the internal European market has also contributed to this situation. The rapid development of subsidised sustainable energy production (wind and solar) in Germany is having a significant and destabilising impact on the energy market. It is a common occurrence that so much green energy is produced in Germany that the supply exceeds the demand. Occasionally this gives rise to negative energy prices. In the Christmas week of 2012, for example, this resulted in prices of minus EUR 200 per megawatt hour.

This has lead to the phenomenon that even the latest, cleanest, and most efficient and flexible power stations in the world – investments running into billions – are being forced out of the market, even though these stations are particularly suitable and necessary in combination with less predictable energy sources such as wind and sun in the coming decades.

This volatility places a heavy demand on our grid system which needs to be reliable and flexible. Reliability is all about an unchanged high security of supply for our approximately 36 million end-users, who can rely on nearly 100% availability of our grids. This places TenneT among the best in the world. As the security of supply is taken for granted by nearly everybody, this creates a paradox: because our electricity supply is so reliable, people do not give any consideration to a possible power failure and its subsequent consequences. On the other hand, their dependence on electricity has increased significantly. As a result of this paradox, a power failure has an even greater impact. To give an example: a power failure in the Dutch Randstad conurbation during the day results in costs to society of more than EUR 70 million per hour.

Grid expansion

With a view to the future, TenneT is making significant investments in further expansions. In the Netherlands, more than 300 projects are either in their preparatory phase or implementation phase, including four large new high-voltage connections. This so-called 'Randstad 380 kV project' will result in a structural improvement in the security of supply in this economically important region. The southern part of this project will be commissioned in 2013. In the coming years, TenneT will install more than 20 kilometres of cables underground in the Randstad 380 kV-connection. This will be divided into parts over the whole route, which is more than 80 kilometres long. The underground installation of a 380,000 Volt (380 kV) connection with a high transmission capacity over such a long distance has never been done before in the world, making the Netherlands the leader in the field of innovative installation of high-voltage cables. TenneT's work on the connection of the extensive Noordoostpolder wind farm will contribute significantly to the growth of sustainable energy production in the Netherlands. It is expected that the first wind turbine will be connected early in 2014.

In Germany, nine large projects are running to work on the improvement and expansion of the North-South connection (380 kV), in particular with the aim of transporting wind power to the end-users. In total, 500 kilometres of new connections are planned. By strengthening the German grid, the burden on the Dutch grid will be lightened. We are engaged in an intensive dialogue with politicians, local stakeholders and wider society as to the best way to install these important connections.

Energy transition

At present, TenneT is the largest investor in the German energy transition. Because of the rapidly increasing supply of renewable energy and the rather abrupt phase-out of nuclear power plants, the stability of the electricity grids in Germany is a significantly higher risk than in previous years. This is the reason why we needed to double the so-called cold reserves in Germany in order to ensure that the 'security buffer' is sufficient.

In the Netherlands, the situation is completely different from that in Germany. Here, there is no sudden loss of available production capacity. Therefore, in respect of the Netherlands, TenneT is calling for a gradual transition to more sustainability. Furthermore, a statutory, preferably European, framework within which the market parties are able and willing to make the required investments running into billions, is also needed.

More than a year ago, TenneT started the discussion in Germany about the feasibility of the desired development of offshore wind energy. The lack of regulations and long-term planning, amongst others, impeded this feasibility. It is good to see that TenneT's clear and urgent recommendations have now been included in the new German Renewable Energy Act. Much needed new regulations on liability and a development plan for offshore wind energy have now been laid down in this act, clearing the way for the further development of offshore wind energy. End 2012 and early 2013, this resulted in two important agreements with Mitsubishi Corporation on investments in four offshore grid connections in the German North Sea. TenneT also appreciates the offshore plan for the long term that is to be developed. The ultimate success of the amended act still needs to be proven. In the end, the market will determine whether the measures taken are sufficient for capital to be made available, but TenneT has confidence in this.

Meanwhile, TenneT has completed the first two offshore projects and is in the process of constructing another seven new connections in a responsible manner. In the Netherlands, Germany and Dubai, six huge offshore converter platforms are currently being built. These kinds of converters are crucial for the success of offshore wind power. To do this, TenneT is applying highly innovative and advanced technologies which have not previously been applied on this scale, a world first! The knowledge and expertise TenneT is currently acquiring in Germany will also prove to be invaluable for the Netherlands.

A true European energy market

TenneT is pursuing the creation of a fully integrated Northwest European energy market. It is notable that this goal is widely acknowledged, but that countries at the same time are reverting to their own energy strategy. However difficult it is, Europe could take a stronger position. A common European energy strategy is the way to an efficient, affordable and reliable sustainable energy supply.

The renovation of existing high-voltage connections and the construction of new ones in Europe will require investments of more than EUR 100 billion in the next ten years. In the year under review, TenneT again took big steps in the role of initiator. Together with the Norwegian TSO Statnett and the German KfW IPEX-Bank (on behalf of KfW) a cooperation agreement was entered into for the development, construction and exploitation of a new subsea cable connection between Norway and Germany. This cable, with a capacity of 1,400 MW, will cost between EUR 1.5 and 2 billion and is expected to be ready at the end of 2018.

Furthermore, TenneT is working on the preparations for a new 380 kV interconnector with Germany, which is to run from Doetinchem to Wesel (planned commissioning in 2015). The interconnection capacity with Belgium was increased from 1,400 MW to 1,700 MW in the year under review. In 2011, the BritNed cable was successfully brought into service. The NordNed cable between the Netherlands and Norway (in operation since 2008) has proven to be a great success. The cable is used to import cheap and clean energy, generated with hydro power, from Norway during daytime. At night-time and during high wind situations cheap night-rate electricity can be used to supply Norway, so that the water in the basins of the Norwegian hydro power plants can be saved for peak times in demand.

In addition to the physical integration, the consolidation of energy exchanges also plays an important role in reinforcing the international markets. In cooperation with other parties, TenneT is an important driver of the international growth of the APX-ENDEX energy exchange. It is essential that APX-ENDEX can continue its growth. For this reason, in the year under review TenneT, as the most important shareholder, has given the company the opportunity to split its electricity and gas activities into a company for electricity and clearing and a company that focuses on gas and derivatives, so as to give both companies maximum flexibility and development opportunities.

Investment programme

The challenging investment programme of approximately EUR 13 billion (EUR 5 billion in the Netherlands and EUR 8 billion in Germany) in the coming decade is essential. The grid must be made ready for the future, also because of the increasing supply of energy sources wind and sun which both fluctuate and are difficult to predict. The capital requirement of approximately EUR 5 billion for investments in the Netherlands will need to be met. Our shareholder, the State of the Netherlands, could play a role in this as well as the (partial) privatisation of TenneT. Consultations with the shareholder on this matter will ultimately lead to a decision which will enable TenneT to maintain - and strengthen where possible - its position as European investor in reliable, modern and future-proof energy grids.

Outlook

It is great to see that our customers appreciate TenneT even more compared to last year. A survey showed a significant growth in customer satisfaction in the Netherlands and Germany. TenneT is well on course. Our company is financially solid and has an impressive and innovative investment portfolio. In the coming years, we will continue with our plans to strengthen and modernise the grids in the Netherlands and Germany. This often takes place for the purpose of the further development of renewable energy. As a result of these (construction) activities, TenneT will become physically more visible. We shall therefore continue to pursue our chosen strategy unchanged in dialogue with society and governments.

Finally, I would like to express my appreciation for the huge commitment and efforts of our employees. In the coming years, they will be facing new challenges. Not only technical ones, but also social, economical and political issues will increasingly play a role. Together, we shall need to prepare our company for this new reality, with profitability, sustainability and quality as guiding principles.

Mel Kroon
Chairman of the Management Board

05 Mission, vision and strategy

TenneT's mission statement is to provide reliable high-voltage power transmission services on a 24/7 basis, while aiming for a single Northwest European electricity market and the integration of renewable energy sources within that market.

TenneT's vision statement governs every aspect of the business, needed to serve the interests of its stakeholders while aiming to achieve the company's mission.

Society

- effective and efficient transmission and system services, resulting in 24/7 security of supply
- continuing integration of the Northwest European electricity market
- investments which contribute to public renewable energy objectives.

Customers

- non-discriminatory access to its grid for all parties
- grid-related services which provide value for money.

Investors

- an adequate return on capital in accordance with the company's risk profile.

Employees

- an attractive, safe and healthy working environment
- competitive employment benefits
- the opportunity for personal growth and development.

TenneT's mission statement is to provide reliable high-voltage power transmission services on a 24/7 basis

Strategy

TenneT's strategy is centred around two axes:

- ensuring the security of power supply at all times in the areas TenneT serves ('licence to operate')
- leading the further integration of the Northwest European electricity market, including the integration of renewable energy sources.
  TenneT has to ensure in parallel the reliability of its grids and the efficiency of its investments and operations as well as the timely construction of required infrastructure.

A leading position will enable TenneT to balance its grid properly, to get better access to renewable energy sources and storage capacity, to realise larger project volumes with higher efficiency, minimise increases in electricity prices in the areas it serves, to get access to superior talent, and to become a more relevant player in Europe with a strong influence on public opinion, legislation and regulations.

Objectives

TenneT strives to safeguard an efficiently functioning electricity market in the Netherlands and Germany, while pursuing the maximum security of electricity supply at the lowest possible prices and realising an adequate return for its shareholder.

TenneT's customers include electricity producers and traders. One of TenneT's main objectives is to achieve and maintain a high level of customer satisfaction. Surveys conducted in 2012, showed an average customer satisfaction score of 8.1 in Germany and of 7.7 in the Netherlands. The program responsible parties rated TenneT with an average of 8.3 in Germany and with an average of 6.4 in the Netherlands. Connected parties in Germany gave TenneT an average of 6.8 and connected parties in the Netherlands an average of 6.4.

TenneT aims to be a linking pin, connecting producers and consumers, and to maintain a permanent dialogue with society. The company adheres to corporate governance codes and takes measures to minimise its footprint.

TenneT's grid investments are partly driven by the growing role of renewables in Europe, including energy brought in from offshore wind farms in the North Sea and via cables connected to hydropower in Norway. New connections enable TenneT to create access to large, new energy sources for consumption across Europe, whilst ensuring that adequate storage capacity will be available for large scale production of sustainable energy. These are logical next steps towards the creation of a sustainable European electricity market.

Company code

TenneT operates on the basis of two core values: quality and integrity. Together with the corporate strategy, the Company Code defines the way in which work is carried out: the so-called 'TenneT Way of Working'. It describes the company's objectives and how these are pursued.

Quality

Quality management's aim is to achieve operational excellence in order to provide efficient, high-quality transmission and system services with 24/7 security of supply at value-for-money tariffs for all the company's stakeholders. In addition, TenneT makes a significant contribution to the creation of an integrated and efficiently functioning energy market in Northwest Europe.

Integrity

TenneT aims to operate in a consistent and reliable way, and to communicate openly. TenneT is independent from suppliers and generators of electricity and provides all parties with guaranteed, non-discriminatory access to its transmission grid. The company operates in a straight forward and predictable manner so that stakeholders can rely on TenneT at all times. By promoting the integration of renewable energy sources into the system, TenneT strives to minimise its environmental footprint.

Focus points

In addition to the core values of quality and integrity, TenneT has formulated two further points for attention as part of the 'TenneT Way of Working': safety and efficiency. This means TenneT devotes special attention to safety and efficiency in its daily activities and processes by enhancing knowledge and awareness. This is aimed to ensure proper conduct by its staff.

Compliance

Compliance with the Company Code and Rules of Conduct is monitored by a Compliance Officer, both in the Netherlands and Germany. The compliance officer acts as a point of contact for staff and has an advisory and supervisory role. In addition, the compliance officer reports to the Management Board and prepares an annual compliance report for submission to the Office of Energy Regulation. To further promote integrity, the company has a whistleblower's procedure. In the Netherlands employees can report any problems to a so-called 'trust adviser'. In Germany this role is covered by the compliance officer. The whistleblower's procedure is published on the company's website.

06 Report by the Management Board

From left to right: Eelco de Boer, Ben Voorhorst, Mel Kroon, Lex Hartman and Martin Fuchs.

Key events in 2012

In 2012 TenneT made large-scale investments in infrastructure assets and continued its efforts to expand and strengthen the grids in the Netherlands and Germany in order to be able to continue to deliver a reliable network to support future electricity needs.

Investing in maintaining a high security of supply and increasing sustainability

TenneT is expanding and strengthening the high-voltage grid throughout the Netherlands. More than 300 high-voltage infrastructure projects are in progress, including four long-distance 380 kV connections. These 380 kV projects are referred to as:

- Randstad 380 North and South ring
- Northwest 380 (Ens - Eemshaven)
- Doetinchem - Wesel (interconnector with Germany)
- Southwest 380 (Borssele to Tilburg).

Conditional approvals were given by the Ministry of Economic Affairs for these four long-distance projects. The construction of a twenty kilometres underground 'highway' to transport electricity across the Dutch Randstad area is well underway. The first 10 kilometres of underground cabling between Delft and Pijnacker-Nootdorp has been finished. Cable links of this length and capacity installed underground in a high-voltage grid at such high-voltage levels (380 kV) are unprecedented. In the Noordoostpolder, TenneT has commenced the installation of 110 kV cables with the aim of connecting the Netherlands' largest wind farm to the high-voltage grid by 2014.

Obligation to repay past system services fees in the Netherlands

Following a court decision in the Netherlands about an ambiguous regulation in the Electricity Act an obligation for TenneT arose to repay past system services fees to electricity consumers without a direct connection to a grid maintained by a TSO. The total obligation for this matter amounts to some EUR 264 million, which impacted the 2012 reported IFRS results. The expenses for this matter will be reimbursed through future tariffs. Further details on this matter are disclosed in note 7.15 of the consolidated financial statements.

Currently about 800 kilometres of lines are in the permission process in Germany

LTO agreement

In December 2012, TenneT and LTO Nederland (the Dutch Federation of Agriculture and Horticulture) reached an agreement with respect to the fees to be paid to land owners and land users for the installation of high-voltage lines in the Netherlands. The agreement applies to all new projects and, retroactively, to 150 parties that have signed a contract with TenneT since 31 December 2010.

German onshore grid

In May 2012, at the request of the Federal Network Agency (Bundesnetzagentur), TenneT presented together with the other three German TSOs (50Hertz Transmission, Amprion and TransnetBW) a first draft of a German grid development plan for the coming decade. This grid development plan is based on long-term renewable energy targets set by the German government and will provide a basis for a federal plan aiming to identify grid expansions required for the next 10 years. According to the plan, onshore extra-high-voltage grids in Germany will need considerable investments to facilitate the German energy transition (Energiewende) and further development of a European electricity market. On top of the optimisation and upgrading of existing lines (4,400 kilometres in aggregate), grid operators also anticipate that a total of 3,800 kilometres of new extra-high-voltage lines will need to be constructed over the next 10 years. These lines will include both alternating-current (AC) and direct-current (DC) connections. As part of the grid development plan, the TSOs also stress the need of broad political support, amendment of the applicable legislation and an appropriate regulatory framework.

On 26 November 2012 the Bundesnetzagentur issued the grid development plan 2012 for Germany's onshore electricity network, the 'Bundesbedarfsplan'.TenneT will have an important role in the execution of this plan and has a key role in the realisation of the required 'North to South' connections. The approved number of lines and line lengths are lower than the first draft by the four TSOs. Currently about 800 kilometres of lines are in the permission process. These include, among others, the following key connections:

- Ganderkesee - St. Hülfe (south of Oldenburg)
- Wahle - Mecklar (south of Hannover)
- Altenfeld - Redwitz (from Thuringia to Bavaria)
- Hamburg Nord - Dollern.

Offshore grid North Germany

During 2012, TenneT had ten offshore grid connections under development or construction in the German part of the North Sea simultaneously. Therewith TenneT is making an unparalleled contribution to the Energiewende. In November 2011, TenneT requested a binding long-term offshore plan and clarification of potential legal liability resulting from delay or unavailability of offshore connections. At the end of November, the German Parliament passed a law establishing new liability arrangements for offshore grid connections which was approved by the Upper House in December 2012. The new regulatory framework was enacted on 28 December 2012. The regulations limit TSO liability in the event of delayed connection or unavailability during operations to EUR 17.5 million per connection per event in case of simple negligence and to EUR 110 million per year in total (in case of simple and/or gross negligence). Damage payments exceeding this deductible are balanced between the German TSOs and charged to the end-consumers via a liability levy. In case of wilful misconduct on the side of the connecting TSO, no damage payments can be passed on. The new law also stipulates the development of a 10-year federal offshore grid development plan, to be updated annually.

Partnership investments offshore

TenneT and Mitsubishi Corporation officially closed their partnership with respect to two German offshore high-voltage cable projects, BorWin1 and BorWin2. Mitsubishi's voting interest will be 49% with aggregate maximum equity commitment of EUR 240 million. At the same time both partners signed a contract for an investment in two more offshore projects named HelWin2 and DolWin2 in which Mitsubishi also will acquire a 49% voting interest for a maximum equity investment of EUR 336 million.

Certification as TSO

The German Federal Network Agency decided not to certify TenneT Germany as a transmission grid operator under the Energy Industry Act (Energiewirtschaftsgesetz, EnWG) in 2012. Such certification is part of the newly established European Union unbundling requirements. The Federal Network Agency confirmed that TenneT fully meets the unbundling requirements, however stated that TenneT did not provide sufficient evidence of the financial means it needs to have to meet the future network operation and expansion duties required by law. TenneT regrets the decision of the Federal Network Agency but at the same time is pleased that the Agency recognised that it is an extraordinary financial challenge to realise multiple offshore grid connections and that the right conditions are missing to achieve the targets of the Energiewende programme. TenneT filed an appeal against this decision and is confident to obtain the certification in 2013.

Continued integration of the Northwest European market

TenneT continues to be committed to further integrate the Northwest European electricity market and to aid in the development of a more sustainable energy system in the region. The company is also investigating options for additional connections with other countries. In consultation with the Danish electricity transmission operator, Energinet.dk, it was decided to continue the development phase of the so-called COBRAcable project. In December 2012, the Norwegian power grid operator Statnett, KfW IPEX-Bank (on behalf of KfW) and TenneT TSO GmbH, concluded a cooperation agreement to develop and construct a subsea cable between Germany and Norway. This interconnector project involves a total investment of approximately EUR 1.5 - 2 billion.

Financial report

Use of underlying financial information

In evaluating the performance of TenneT's businesses, the assessment of performance and allocation of resources is based on underlying financial information instead of information reported in accordance with IFRS. Underlying financial information is based on the principle to recognise regulatory assets and liabilities in connection with TenneT's regulated activities whereas IFRS does not permit this. This implies that amounts resulting from past events and which are allowed or required to be settled in future grid tariffs are recorded as an asset or liability, respectively.

The concept behind the underlying financial information is that relevant regulatory revenues and expenses are matched with each other during a corresponding reporting period. TenneT's Management Board believes that the presentation of underlying financial information leads to a sound, consistent and transparent financial insight into current and future business developments and provides improved insight in the true economic performance of TenneT.

TenneT's Management Board also uses the underlying financial information in communicating financial performance to investors and announcements of financial results.

The analysis in this financial report principally focuses on underlying financial information. Underlying financial information is presented in the consolidated financial statements under 'segment reporting' in note 5. The accounting policy on segment reporting is further detailed in note 3.1 of the consolidated financial statements.

Reconciliations of underlying financial information to reported IFRS financial information can be found in note 5 'segment reporting' of the consolidated financial statements.

Key underlying figures 2012

Key underlying figures are summarised in the table below. TenneT's management evaluates the performance of the business primarily based on earnings before interest and taxes ('EBIT'). Financing activities (including resulting finance income and expense) and income taxes are managed on a group basis and are further evaluated in these consolidated financial statement based on the reported IFRS figures.

Key underlying figures (in EUR million)

	2012	2011	Change	Change in %
Revenues	1,789	1,545	244	16%
Operating expenses	-1,427	-1,192	-235	20%
EBIT	362	353	9	3%
Assets	10,342	8,808	1,534	17%
Liabilities	8,121	6,833	1,288	19%
Equity	2,221	1,975	246	12%

Increase in revenue (underlying)

Total underlying revenue increased by 16% to EUR 1,789 million in 2012 (2011: EUR 1,545 million). The increased overall revenue is mainly related to Germany, whereas the 2012 revenue in the Netherlands showed a EUR 46 million decrease in 2012 resulting from a one-off gain in 2011.

The lower revenue in the Netherlands results from a lower permitted regulated revenue due to a one-off gain caused by the favourable outcome of legal proceedings in respect of the Dutch regulator's method decision for the regulatory period from 2008 to 2010. This one-off gain resulted in EUR 116 million additional permitted regulated revenue in 2011, compared to EUR 18 million of additional revenue in 2012. The lower permitted regulated revenue in the Netherlands due to this one-off gain was partially offset by an increase in revenue due to the negative regulatory "x-factor" (EUR 29 million), additional compensation for cross border lease transmission expenses (EUR 19 million) and additional compensation for capital expenditures for significant investments (EUR 10 million).

The increase in German revenues is mainly related to reimbursement of higher energy & capacity expenses (EUR 164 million) and increased offshore investments (EUR 67 million). Energy & capacity expenses increased due to higher costs for both redispatch (maintaining the voltage levels) caused by more congested lines resulting from the German nuclear power plant moratorium and by control power due to cold weather in the first quarter 2012 as well as the increased in-feed of renewable energy in Germany. TenneT will be reimbursed for these higher expenses through future tariffs.

In 2012 TenneT made significant investments in connection lines for offshore wind farms in Germany. As a result revenues from the company's offshore activities increased. Furthermore, the revenues in Germany further increased due to a higher bonus for grid losses and control power (EUR 8 million) and due to a mix of several small items (EUR 32 million).

2012 underlying revenue further increased by EUR 10 million relating to the BritNed joint venture. Revenues from BritNed amounted to EUR 18 million in 2012 compared to EUR 8 million in 2011. BritNed is a 50/50 joint venture between TenneT and National Grid, the British transmission system operator, and operates a 1,000 MW, 260 kilometre subsea electricity link between the UK and the Netherlands. The BritNed cable was commissioned in April 2011. As a result 2011 revenue comprises nine months of BritNed revenue compared to a full year of revenue in 2012.

Revenue from other non-regulated TSO activities showed an increase of EUR 10 million in 2012 compared to 2011.

Increase in operating expenses (underlying)

The increase in underlying operating expenses mainly results from higher energy & capacity expenses as discussed above (EUR 164 million). Furthermore, increased offshore activities resulted in EUR 15 million higher operating expenses. The growth in workforce – also mainly related to the increase of offshore activities – caused personnel expenses to rise by EUR 22 million.

Finally, TenneT's increased asset base resulted in higher depreciation and amortisation expenses (EUR 27 million) in 2012 compared to 2011.

Stable Earnings Before Interest and Taxes (underlying)

Due to the lower permitted regulated revenue in the Netherlands, the underlying EBIT for the Dutch TSO showed a decrease of approximately EUR 90 million. Increased German offshore investments resulted in a higher underlying EBIT for the German TSO. The underlying EBIT increase in Germany amounted to EUR 84 million.

Furthermore, a full year of operation of the BritNed cable resulted in an underlying EBIT increase of EUR 7 million. Including an EUR 8 million underlying EBIT increase in other non-regulated TSO activities, consolidated underlying EBIT increased by 3% to EUR 362 million (2011: EUR 353 million).

Financial position (underlying)

Assets

Total underlying assets as at 31 December 2012 were EUR 1.5 billion higher than as at 31 December 2011.

Total underlying assets in Netherlands increased due the recognition of a regulatory asset for expenses that will be recovered through future tariffs. Following a court decision in the Netherlands about an ambiguous regulation in the Electricity Act an regulatory asset for TenneT has arisen to repay past system services fees collected from electricity consumers without a direct connection to the TenneT grid.
The total regulatory asset for this matter has been estimated at EUR 264 million, which will be recouped by TenneT through future tariffs, resulting in an underlying regulatory asset for the same amount.

Total underlying assets further increased due to investments in offshore projects in Germany (total additions to tangible fixed assets amount to EUR 1.9 billion) and from EEG related receivables (EUR 590 million).

The increase is partly offset by the depreciation and amortisation charge of EUR 245 million and a decrease in current assets (EUR 914 million). Excess cash balances as of 31 December 2011 were mainly used to finance the offshore projects in Germany and the net EEG cash outflow in 2012. The total value of large-scale German offshore projects under construction amounted to around EUR 2 billion as at 31 December 2012.

Liabilities

Underlying liabilities increased due to an increase in auction receipts (EUR 155 million), higher accruals for invoices to be received in relation with tangible fixed asset purchases for German offshore projects (EUR 315 million) and the aforementioned obligation to repay past system services fees to electricity consumers without a direct connection to TenneT's grid (EUR 243 million).
In addition, in order to finance investments in tangible fixed assets and net EEG outflows, TenneT obtained additional long-term and short term borrowings amounting to EUR 960 million. The company's remaining unused credit facilities amount to EUR 2 billion as at 31 December 2012.

The increase in the underlying liabilities was partly offset by an EUR 200 million decrease in EEG-related liabilities resulting from lower in-feed of solar energy in the fourth quarter of 2012.

Equity increased in 2012

Total equity as at 31 December 2012 increased compared to 31 December 2011 resulting from this year's total comprehensive income of EUR 155 million and the sale of a non-controlling interest in two German offshore projects (Borwin1 and Borwin2) to Mitsubishi Corporation in December 2012. The sale resulted in an equity increase of EUR 75 million (net of transaction costs), followed by an EUR 101 million capital contribution by Mitsubishi Corporation.

The increase in equity was reduced by dividend distributions to the common shareholder (EUR 60 million) and the holders of the hybrid securities (EUR 25 million, net of tax).

Comparison of underlying figures to reported IFRS figures

The difference between underlying key figures and reported IFRS figures is as follows:

Comparison underlying to reported (in EUR million)

	2012			2011		
	Underlying	**Reported**	**Diffference**	**Underlying**	**Reported**	**Diffference**
Revenues	1,789	1,647	142	1,545	1,567	-22
Operating expenses	-1,427	-1,310	-117	-1,192	-1,185	-7
EBIT	362	337	25	353	382	-29
Assets	10,342	10,055	287	8,808	8,602	206
Liabilities	8,121	7,203	918	6,833	6,005	828
Equity	2,221	2,852	-631	1,975	2,597	-622

Revenues, operating expenses and EBIT
Underlying EBIT was EUR 25 million higher compared to reported EBIT under IFRS due to (1) recognition of regulatory assets and liabilities in the underlying financial information (EUR 279 million), (2) recognition of auction receipts as revenue under IFRS (EUR 134 million) and (3) impairment reversal under IFRS (EUR 120 million).

Underlying EBIT included revenues for expenses that will be recovered by TenneT in future tariffs amounting to EUR 279 million (2011: EUR 32 million). In the IFRS reported figures these future settlements were not included in current year EBIT. In 2012, reported EBIT contained a provision and related expenses for the system services fees in the Netherlands, which had a negative impact of EUR 243 million. In the underlying financial information a regulatory asset was recognised in the same amount as these expenses will be recouped through future tariffs.

In addition, IFRS reported figures included the recognition of auction receipts as revenue (EUR 134 million in 2012 and EUR 61 million in 2011), whilst in the underlying figures auction receipts and related cost were recognised as a regulatory liability in the statement of financial position.

The different treatment of auction receipts under IFRS compared to underlying financial information also affected the impairment test performed for non-current assets. For IFRS reporting, auctions receipts were included as income for impairment testing purposes. Increased auction revenues in 2012 combined with a decrease in the degree of uncertainty related to the attribution of future auction revenues to assets subject to the impairment review, resulted in an impairment reversal of EUR 120 million in the 2012 IFRS reported figures.

Assets
The underlying assets included regulatory assets amounting to EUR 230 million (2011: EUR 15 million), which will be settled in future tariffs. Furthermore, the measurement of the tangible fixed assets differed in the IFRS reported figures compared to the underlying financial information. As a result the book value of the tangible fixed assets in the IFRS reported figures is EUR 57 million lower compared to the book value in the underlying financial information.

This difference relates on the one hand to the impairment reversal under IFRS for the Dutch assets (EUR 120 million) and on the other hand to a EUR 177 million step-up recorded in the underlying tangible fixed assets as part of the purchase price allocation of the Transpower acquisition in 2010. This step-up includes the recognition of regulatory liabilities for an equal amount.

Liabilities
Underlying liabilities showed a higher balance compared to the liabilities reported under IFRS resulting from the regulatory liabilities recognised in the underlying figures. The regulatory liabilities comprised auction receipts (EUR 684 million in 2012 and EUR 529 million in 2011), amounts to be settled in tariffs (EUR 66 million in 2012 and EUR 156 million in 2011), investments extracted from auction receipts (EUR 313 million in 2012 and EUR 324 million in 2011) and liabilities for maintenance of the energy balance between supply and demand (EUR 47 million in 2012 and EUR 29 million in 2011). The impact of these regulatory liabilities on the deferred tax liability was EUR -191 million (2011: EUR -209 million).

Equity
The differences in revenue recognition and related recognition of regulatory assets and liabilities resulted in a different net income under underlying reporting compared to IFRS reporting. No other differences affecting equity existed.

Finance result and income tax expenses

Net finance result decreased by EUR 40 million to negative EUR 100 million in 2012 (2011: negative EUR 60 million) as less interest was capitalized due to a change in legislation in Germany (effective 1 January 2012), which ensured the immediate reimbursement of capital costs for investments in tangible fixed assets. These reimbursements has been presented under revenues. Furthermore, the completion of the BritNed cable and some other large construction projects in 2011 resulted in lower capitalised borrowings costs in the Netherlands as well.

The effect of the increased borrowings on the finance result is limited as the majority of new borrowings consist of short-term commercial paper with a very low interest rate (i.e. effective interest rate of 0.15%).

Income tax decreased in 2012 mainly due to a decrease in the profit before tax.

Cash flows

The consolidated cash flows can be summarised as follows:

Consolidated cash flows (in EUR million)				
	2012	**2011**	**Change**	**Change in %**
Net cash flows from operating activities (excl. EEG)	364	514	-150	-29%
Net cash flows from operating activities (incl. EEG)	-444	1,110	-1,554	-140%
Net cash flows used in investing activities	-1,612	-910	-702	77%
Net cash flows from financing activities	1,245	403	842	209%
Net change in cash and cash equivalents	**-811**	**603**	**-1,414**	**-234%**

Cash flows from operating activities showed a significant decrease in 2012 compared to 2011. The decrease is fully related to a change in EEG working capital. In accordance with the EEG system, the balance of EEG cash in- and outflows in the previous year has to be reimbursed or can be recovered in the next year via an adjusted surcharge accounting for such deviations. As a result the EEG cash flows showed a net inflow in 2011 and a net outflow in 2012.

The increase in cash outflows associated with investing activities can entirely be explained by the increase in capital expenditures. The majority of these expenditures relate to German offshore projects and, to a smaller extent, investments in the Dutch grid.

Cash flows from financing activities increased resulting from the proceeds of new borrowings used to finance the significant capital expenditures. Furthermore, the sale of a non-controlling interest in two German offshore projects (BorWin1 and BorWin2) to Mitsubishi Corporation resulted in an initial cash inflow of EUR 80 million. followed by an EUR 101 million capital contribution by Mitsubishi Corporation.

Funding

TenneT aims to have a capital structure which is in line with the risk profile of its (predominantly regulated) activities and with the duration of its assets. To maintain ample access to a wide range of financing options and consistent with government policy and regulatory assumptions, the company is committed to maintaining a senior unsecured long-term credit rating of at least A3/A-. In addition, TenneT strives to have sufficient liquidity, consisting of cash and credit lines to cover the expected net cash outflow for the next 12 months on a rolling basis.

To further strengthen its equity base, TenneT has entered into a partnership with Mitsubishi Corporation. In December 2012 TenneT and Mitsubishi Corporation closed their partnership with respect to two German offshore high-voltage cable projects, BorWin1 en BorWin2. Mitsubishi's voting interest is 49% with an aggregate maximum equity commitment of EUR 240 million. Furthermore in January 2013, TenneT and Mitsubishi Corporation signed an agreement on an investment in two more offshore projects, HelWin2 and Dolwin2, in which Mitsubishi also will acquire a 49% voting interest for a maximum equity investment of EUR 336 million.

On the debt side, TenneT drew EUR 150 million under the credit facility with the European Investment Bank that was signed in January 2011. TenneT has the option (subject to European Investment Bank credit approval) to borrow an additional EUR 300 million to finance the Randstad 380 kV project in the Netherlands.

In November 2012 TenneT entered into a new revolving credit facility of EUR 500 million, maturing in November 2015. This facility was unused as of 31 December 2012. In addition TenneT extended the term of its existing EUR 1,125 million revolving bank credit facility to August 2017. This facility was also unused as of 31 December 2012. To diversify short-term funding sources and minimise interest expenses, the company issued commercial paper on a revolving basis under a European commercial paper programme and has issued certain short-term (money market) loans. As at 31 December 2012, EUR 829 million of short-term loans and commercial paper was outstanding (excluding the current part of the long-term loans).

Outlook

TenneT faces a large investment programme, currently estimated to amount to approximately EUR 13 billion over the next 10 years. These investments mainly involve new connections triggered primarily by (i) large-scale conventional electricity production capacity in a number of favourably situated coastal locations in the Netherlands (ii) offshore wind farms in Germany and (iii) expansion of the German onshore grid. As a result, TenneT expects to continue to have a significant need for capital during the coming years.

TSOs' challenges at European level include the accommodation of the accelerating growth in required transport capacity by investing considerable amounts in the coming decade(s), the further integration of the European energy market, and the transition to a sustainable energy market. These investments will require TenneT to attract equity investors. A reasonable rate of return within the regulatory framework is required.

During 2013, the Dutch and German regulator will each determine permitted revenues for the regulatory period starting 2014 in both the Netherlands and Germany, respectively. Moreover, TenneT will be part of the international efficiency benchmarking study conducted by the European regulators.

Human Resources

Employees per 31 December 2012	2012	2011
Number of employees (excluding external personnel) in FTEs	2,293	2,148
Number of external personnel in FTEs	365	263
Absence rate (%)	2.8	2.5

Age spread of workforce per 31 December 2012	2012	2011
Under 20	1.6%	1.7%
20-30	15,7%	15.4%
30-40	29.0%	29.4%
40-50	29.3%	29.0%
50-60	21.0%	22.2%
Over 60	3.3%	2.3%

Composition of workforce per 31 December 2012	2012	2011
Payroll employees by gender		
Male	77.5%	77.9%
Female	22.5%	22.1%
Managerial staff by gender		
Male	84,8%	83.4%
Female	15,2%	16.6%

FTE

In 2012 the number of employees remained almost the same in the Netherlands. The number of employees in Germany increased. This increase is mainly related to the growing investment portfolio for onshore and offshore projects in Germany. At year-end 2012, the total workforce was 2,293 FTEs (2,373 people): 1,068 FTEs (1,113 people) in the Netherlands, 1,044 FTEs (1,073 people) in Germany and other countries 181 FTEs (197 people). Staff hired from third parties (as temporary replacements or for specific expertise) increased to 365 FTEs, mainly due to growing number of offshore projects.

Staff development

TenneT's workforce needs to adapt to the demands of a rapidly changing business environment. Therefore, TenneT TSO B.V. together with trade organisations Abvakabo FNV, CNV Publieke Zaak and VHMP-N agreed to a Social Plan. This came into effect on 1 January 2012 for a period of two years.
In 2012, a total of 33 employees from the departments Asset Management, Grid Services, Corporate Control and Corporate Communications were identified as redundant. In line with the Social Plan, TenneT's in-house mobility agency played an effective role in guiding these employees to a new job, either internally or externally. Alternatively, some redundant employees decided to benefit from a redundancy scheme.

Health

In 2012, the average absence rate for the Netherlands and Germany amounted to 2.8 %, which the company deems satisfactory. For the Netherlands the percentage amounted to 3.5% and for Germany to 2.1%. It is TenneT's policy to create a supportive working environment to enable its employees to lead a healthy lifestyle. All employees are encouraged to participate in the so-called Committed Power sports programme and are offered the opportunity to be supported by a Lifestyle Coach. The Committed Power programme is designed to stimulate exercise and offers employees and their partners the opportunity to prepare themselves for a challenging goal with professional support. In 2012, 595 employees participated in various sports, including Nordic walking, cycling, running, ice-skating and cross-country skiing. In the Netherlands all employees were offered the opportunity to take part in a Preventive Medical Monitoring programme on a voluntary and anonymous basis. This Health Check provides TenneT with a good insight into the health of its workforce at departmental and group levels and at an individual level for the employee concerned.

Flexible working

In 2013, TenneT's head office will move to a new building, the Mariëndaal Centre of Excellence in Arnhem. This new office is especially designed to facilitate flexible working. Flex@TenneT is a programme to facilitate the introduction of flexible working in the Netherlands in 2013. TenneT expects that it will increase employee satisfaction and strengthen its position as an attractive employer. Additionally, it is aimed at greater efficiency and effectiveness. Flexible working will also contribute to the reduction of TenneT's environmental footprint and costs. In 2012 several initiatives were taken to prepare managers and employees for this new way of working.

Training and education

TenneT has a robust succession planning programme in place for its directors and senior managers and ensures that existing employees develop themselves and feel challenged to realise their full potential. Therefore, TenneT offers several training and educational programmes.

A good example of TenneT's investment in its employees is the Leadership Development Programme. This cross-border leadership training programme for senior managers is designed to develop leadership skills, improve teambuilding and achieve alignment with business goals. For middle management and high potentials, Management Development programmes are offered in both the Netherlands and Germany, aimed at developing their talents and leadership skills.

In collaboration with three universities of Applied Sciences - The Hague, HAN and Windesheim - TenneT facilitates Power Minor, a training programme for electrical engineering students. Under the Young Talent Programme graduates who recently graduated with a master's degree are trained to become fully-fledged TenneT professionals over a two-year period. In Germany the Trainee Programme offers various work experience placements.

Safety

Safety is a key element of the 'TenneT Way of Working'. TenneT's aim is to reduce the number of accidents and incidents to zero both for its own employees as for its contractor's staff. To this end, TenneT developed various initiatives for areas such as risk assessment, emergency response and incident definition and classification.

LTIF

TenneT records all SHE incidents of its own employees and its contractors. An overview of the corresponding Lost Time Injury Frequency ('LTIF'), representing the number of lost-time injuries per million hours worked, is included in the table below.

Year	LTIF* (excluding contractors)	LTIF* (including contractors)
2010	4.95	2.66
2011	0.87	3.81
2012	2.23	4.81**

* Lost Time Injury Frequency (LTIF), the number of lost time injuries for each one million hours worked.

** In 2012 TenneT changed its method for calculating its LTIF (including contractors), therefore this figure is not wholly comparable with prior years.

Safety first! Programme

Safety is a responsibility shared by all employees and is at the top of the agenda with the aim of promoting greater awareness and establishing the desired behaviour at all levels within the company and across the supply chain. Therefore, TenneT implemented an ongoing safety awareness programme called 'Safety first!'. The objective of this programme is to further raise the employees' awareness of safety risks and mitigation measures. In 2012, workshops on safety awareness were organised for senior managers in the Netherlands and Germany, forming the basis for a further roll-out across the entire organisation of the programme in 2013.

The fluctuation of the LTIF (excluding contractors) is due to the limited basis of the input data, meaning that every single incident has a large effect on the LTIF. In 2010 the LTIF (excluding contractors) was relatively high, because of a serious incident in Germany. In 2012 the increase of the LTIF (including contractors) is mainly related to the substantial increase of the number of activities carried out on the offshore grid connection projects by TenneT's contractors in Germany. TenneT deems the performance of the involved (sub)contractors as unacceptable, therefore the company has initiated several measures for improving contractor safety. For instance the Country Board Germany reached out to these companies on Board level to express its concerns and urged them to improve on safety. In 2013 TenneT will be focused on improving the SHE performance of its contractors.

Security and crisis management

The principal aim of TenneT's security policy is to protect the organisation and its assets against terrorism, crime and vandalism. During 2012, TenneT made its security more robust by implementing additional guidelines in a number of areas. Together with Dutch police authorities, TenneT developed detailed plans and conducted exercises in order to be able to respond effectively to possible terrorist attacks. In Germany, contacts with federal and local authorities were established to discuss a future approach to terrorism.

Copper theft

As far as theft prevention was concerned, copper theft was one of the main focus areas in 2012. The Dutch Minister of Security and Justice, Opstelten, and TenneT CEO, Kroon, signed a convenant aimed at implementing joint public sector and private sector measures to curtail the growing number of incidents of copper theft. TenneT has started similar initiatives in Germany.

Cyber security

The importance of effective cyber security remained of paramount importance during 2012. Both in Germany and the Netherlands, TenneT focused on the collaboration between the public sector and private sector in this field. As part of these efforts, a TenneT representative was seconded to the Dutch National Cyber Security Centre (NCSC) on behalf of the private sector. At the suggestion of TenneT, the European Network of Transmission System Operators for Electricity (ENTSO-E) established a special interest group focusing on cyber security, in which TenneT participates.

External safety

At TenneT, the term ‘external safety’ refers to all risks to the external environment arising from high-voltage assets, overhead power lines and underground cables. Information campaigns are run every year in order to notify third parties of the risks involved in working or living near high-voltage assets and power lines. The company also takes great care to inform local residents and other stakeholders during the construction of new electricity lines and high-voltage assets. In 2012, no serious accidents occurred in which third parties were exposed to high-voltage levels.

Crisis management

TenneT tested its crisis management organisation on several occasions in 2012. Incident response was tested in real time simulations, and various other exercises and training sessions were organised. In Germany, the focus was on critical grid situations. In the Netherlands, TenneT held exercises with several external partners, including an international exercise in conjunction with Elia and RTE as well as a counter-terrorism exercise that involved both local and national authorities.

> An important part of TenneT’s innovation process is organised bottom-up, starting with ideas of employees and external stakeholders

Innovation

TenneT believes innovation is about successfully exploiting new ideas to create value for society and the company. Innovation produces solutions to meet the following strategic goals:

- high security of supply by international standards
- market integration to ensure stable prices
- integration of renewable energy.

An important part of TenneT’s innovation process is organised bottom-up, starting with ideas of employees and external stakeholders. The active support of TenneT leadership in this process is highly valued by the employees.
In the top-down process an externally oriented Innovation Advisory Board fulfils an important role in mirroring ideas, TenneT’s innovation programmes and TenneT’s Research & Development policy in an international context. The Innovation Advisory Board consists of members of research centres, the academic world and Transmission System Operators.

Two of TenneT’s major innovation projects consist of:

Dynamic Line Rating
This project is based on the knowledge that the additional available thermal line capacity that exists regularly but not continuously can be made available for scheduled transportation. Triggered by the available weather forecasts and the intrinsic value these may contain for predicting the cooling of the conductors in short time line rating models, TenneT established an innovation programme for Weather Forecasted Line Rating. Meteorological specialists provide knowledge about wind and temperature forecasting in order to establish the reliability of such forecasts for overhead line rating schemes.

Encouraged by the results, TenneT started a pilot period, in which the strengths and weaknesses of forecasting were assessed.

Innovative grid connection for offshore wind farms
TenneT is installing several innovative grid connections for offshore wind farms. DolWin2 will deploy the world's largest offshore converter platform (almost 100 meter long and 70 meter wide) with a HVDC (high-voltage direct current) system of over 900 megawatts (MW) based on the latest VSC (voltage-sourced converter) technology. With a rated voltage of 320 kilovolts (kV), the 135 kilometres of underwater and underground HVDC cable link will have the highest voltage level of extruded cable ever used for HVDC transmission.

Offshore grid development

Offshore grid development was high on the management agenda in 2012. This was particularly reflected in the involvement in various international working groups. TenneT is, for example, actively involved in the North Seas Countries Offshore Grid Initiative (NSCOGI) and the Twenties project. Both projects investigated the usefulness and necessity for an offshore network in the North Sea, on which the first tentative conclusions have already become available.

NSCOGI, a collaboration of national governments in the EU, TSOs and regulators, made use of the existing working groups within the ENTSO-E to prepare the actual calculations with the help of market models and grid models. A reference scenario for 2030, defined by national governments, with approximately 60 GW of deployed offshore wind energy, was analysed in order to assess whether a meshed grid at sea offers benefits (economically and in respect of efficiency) compared to radial connections.

As part of the Twenties project, a study of the so-called Triffid solution, a case study of the integration of the interconnector COBRAcable and the connection from the SylWin1 wind farm, is being conducted. Economic aspects as well as those related to control, licensing and regulation are investigated.

Both projects are valuable input for further research for the integrated development of onshore and offshore grids in the future.

Focus

In 2012, the focus of TenneT's innovation programmes has been on implementing several large-scale innovation projects. These projects affect multiple internal departments, and therefore, cooperation and coordination are critical factors for success. Bringing the right people together will continue to be an important element to facilitate innovation.

In the coming years energy supply will become more sustainable and the electricity markets will become more volatile and international. These developments have been identified as the most important areas in which TenneT needs to innovate. While doing this, the security of supply has to be guaranteed at all times.

07 Corporate Social Responsibility

As the security of electricity supply is of key social and economic importance TenneT attaches great significance to the theme of Corporate Social Responsibility (CSR). The company has translated the often-used CSR dimension of people, planet and profit into four areas of focus: society, environment, employees and markets.

CSR has been an integrated part of TenneT's operational management since 2009. A general TenneT CSR policy was adopted in early 2011. The company's strategic plan provided the main input for the operational CSR plan for the period 2012 - 2014. Stakeholder interviews, information provided by other TSOs and international CSR agreements also contributed to TenneT's CSR plan, which includes annual CSR objectives and CSR key performance indicators (KPIs).

For further details on TenneT's GRI application level reference is made to the GRI table as included in this integrated annual report.

CSR strategy

TenneT fully recognises its social and economical responsibility, as evidenced by the company's main objective: to supply electricity in an efficient, sustainable and reliable manner. It is TenneT's ambition to achieve top-quartile performance among TSOs in Western Europe in the area of CSR.

TenneT applies the following CSR principles throughout its business:

- CSR is an integral part of TenneT's core business and embedded in its regular governance processes
- TenneT adheres to national and international standards that encourage social and environmental commitment and responsibility
- execution of the company's CSR policy is a responsibility of the line organisation
- innovation is essential to respond efficiently and proactively to societal developments and demands.

TenneT CSR Key Performance Indicators (KPI) are summarised in the table below.

Corporate Social Responsibility Key Performance Indicators						
	2012	2011	2012	2011	2012	2011
	NL	NL	D	D	Total	Total
Grid losses (GWh)	823	819	1,659	1,531	2,482	2,350
SF6 emissions (kg)	653	742	564	560	1,217	1,302
Oil injections (litres)	9,506	5,653	n.a	n.a	9,506	5,653
Soil calamities (#)	13	29	12	3	25	32
Volatile Organic Compounds (kg)	54,054	20,032	25,111	26,400	79,165	46,432
Lost Time Incident Frequency (including contractors)	1.34	2.18	8.43	7.84	4.81	3.81

CSR process control

Since 2009, CSR has been an integrated part of the annual plans of TenneT, in accordance with its regular corporate governance processes. The Management Board establishes the relevant CSR frameworks on an annual basis.

Monitoring activities and corrective actions are carried out on the basis of process control mechanisms and internal reporting structures. Organisational units issue internal reports on a quarterly basis, including progress made on CSR objectives set out in their respective annual plans.

For internal audit and risk management purposes TenneT uses a risk matrix, which addresses, amongst others, environmental, safety and compliance risks.

Within TenneT the Netherlands, the following organisational units have been separately certified:

- Grid Services holds a SSC/VCA certificate (safety for operational managers)
- System Operations is ISO 9001 certified
- Asset Management is NTA-8120 certified (national asset management system standard).

CSR approach until 2014

TenneT aims to increase the visibility of CSR aspects of its business, both internally and externally. Employees are facing people, planet and profit aspects in their day-to-day activities. TenneT aims to continue to raise employee awareness among employees of ongoing CSR initiatives and to encourage employees to actively take CSR into consideration in their every-day work.

TenneT believes collaboration and sharing information contributes positively to the public acceptance of TenneT's activities. As a result, TenneT is actively engaged in the public debate in several areas, for example the construction of new high-voltage lines, education and the development of industry norms and standards.

The company cooperates with other TSOs, industry associations and other relevant stakeholders. Based on an analysis of new and existing initiatives in this area, they will evaluate how CSR can positively contribute to realising business goals.

Society & markets

As an important player in the energy supply chain TenneT has the ambition to exert a positive influence on its suppliers and customers. The people, planet and profit dimensions have been incorporated into the company's procurement policy with a view towards improving the quality of purchased goods and services and thus contribute to society. Additionally, TenneT has decided to incorporate guidelines with respect to international human rights standards, where feasible and applicable, into tender documents starting 2013.

TenneT has various knowledge platforms and an Innovation Advisory Board dedicated to innovation in order to contribute to CSR objectives.

> The people, planet and profit dimensions have been incorporated into the company's procurement policy

TenneT recognises the importance of corporate social responsibility and is therefore constantly seeking ways to improve the security and sustainability of electricity supply. In 2012 TenneT focussed primarily on further developing relevant processes and improvements it had already initiated.

TenneT maintains frequent contact with its stakeholders, including public interest groups, industry federations, other (foreign) grid operators and knowledge platforms.

TenneT actively contributes to, for example, E-laad (a foundation that promotes the use of electric vehicles), ENTSO-E, the Renewables Grid Initiative (RGI), the Smart Grids Taskforce, the Netherlands Association of Energy Grid Operators, CIGRE and various NGOs. In addition, the company collaborates actively with WWF, Germanwatch and BirdLife International.

In 2012, TenneT TSO NL, reached agreement with the Dutch Federation of Agriculture with respect to compensation payable to land owners and land users for the installation of high-voltage lines in the Netherlands.

Increase in sustainable energy certificates issued of 15%

CertiQ (a 100% subsidiary of TenneT TSO B.V.) issues certificates to certify that electricity has been produced by renewable energy sources. In 2012, 12.8 million certificates were issued for sustainable electricity generated in the Netherlands, which is an increase of 15% compared to 2011. The number of registered installations for the production of sustainable electricity increased from 10,561 in 2011 to 11,876 in 2011, primarily due to a rise in solar installations.

In 2012, CertiQ provided end-users the possibility to verify the origin of the certificates which were used for their energy supply or to verify which energy source was used with the aim of offering even more transparency.

At the request of the Ministry of Economic Affairs, CertiQ also started to issue Guarantees of Origin for renewable heat as of 2012. These Guarantees of Origin are used to determine entitlement to Dutch renewable energy subsidies.

Impact of the electricity transmission system

TenneT is responsible for the transmission of electricity within the overall electricity supply chain Producers of electricity may use fossil fuels (such as natural gas or coal) or renewable energy sources (such as wind, solar, biomass or hydropower). An important side-effect resulting from electricity generation from traditional energy sources is the emission of carbon dioxide (CO_2). The use of renewable energy sources on the contrary meets society's demand for a transition to a sustainable energy supply.

To accommodate the increase in sustainable energy supply, new and innovative electricity transmission solutions are needed, such as the realisation of offshore connection systems and cross-border interconnections. To achieve this, TenneT collaborates with TSOs in the Netherlands, Germany and in other European countries. This helps to control risks and seize opportunities for which TenneT has innovation programmes in place. During the past years TenneT made significant efforts to connect offshore wind farms in Germany to the onshore grid, resulting in an essential contribution to the transition to a sustainable energy supply in Northwest Europe.

The transmission and distribution of electricity has a number of environmental side-effects. Construction of new high-voltage lines impacts owners and users of land and homes, whose concerns TenneT tries to take into account as much as possible when planning additional lines. The company also strives to avoid the negative impact of its transmission system on the environment by, for example, responsible waste and soil management and a minimal use of sulphur hexafluoride ($SF6_6$). Limiting grid losses is important for the reduction of CO_2 emissions, which TenneT aims to keep to a minimum through careful selection of materials, optimising infrastructure and proper maintenance. And TenneT compensates its unavoidable CO_2 emissions via Gurantees of Origin.

Environment

In all its maintenance and construction work and other activities TenneT takes into account the environment and any inconvenience caused to inhabitants.

SF6 emissions

TenneT uses sulphur hexafluoride (SF6) as an insulating gas in high-voltage switchgear and reports annually to the Netherlands Association of Energy Grid Operators on the use of this greenhouse gas in the Netherlands.

In 2012, TenneT improved the registration and reporting of SF6 emission at its Dutch stations. As a result, insight can be obtained much more quickly into which stations have higher emissions, such that corrective measures can be taken at an earlier stage. Furthermore, TenneT is carrying out a pilot project to analyse whether SF6 could be replaced by an alternative with a substantially lower environmental impact. TenneT will continue to focus on further cutting down SF6 emissions by setting reduction targets in the coming years.

In 2012, the SF6 quantity in use was in line with the prior year (2011: 130,697 kg), and total emissions were reduced to 653 kg (2011: 742 kg) in the Netherlands. Total emissions decreased as a result of the replacement and/or overhaul of various components.

In Germany, TenneT reports annually on its use of SF6 to a commission of the German industry association. The total quantity of SF6 in use amounted to 100,320 kg (2011: 99,821 kg) and total emissions amounted to 564 kg (2011: 560 kg).

Volatile Organic Compounds

High-voltage pylons must be painted approximately once every ten years to keep them in good condition. The paint used for this purpose contains Volatile Organic Compounds (VOCs). TenneT keeps annual records of the number of painted pylons and the quantity of paint used for this purpose, allowing it to keep track of the quantity of VOC emitted during painting work.

In 2012, TenneT emitted 54,054 kg (2011: 20,032 kg) of VOCs in the Netherlands. This increase was caused by a rise in painting activities. In Germany, TenneT emitted 25,111 kg (2011: 26,400 kg) of VOCs in 2012. TenneT is investigating how it can reduce its VOC emissions by testing other types of paint with a lower VOC content. In addition, TenneT is researching improved paint quality to reduce painting frequency, and is improving painting techniques to lower paint usage.

Waste

TenneT's construction and maintenance activities generate certain waste streams. TenneT's waste is stored separately on-site and collected by certified waste collection companies. The company periodically records the amounts of waste it generates.

The company established an international working group to explore how office and project waste can be re-used as raw material.

The table below provides an overview of the amounts of hazardous and non-hazardous waste generated and disposed of by the company off-site. Examples of hazardous waste streams include contaminated soil and waste that contains oil.

> TenneT has implemented several protective measures to prevent contamination of the environment

Waste data (in tonnes)*

	2012	2011	2012	2011	2012	2011
	NL	**NL**	**D**	**D**	**Total**	**Total**
Non-hazardous	224	165	1,386	15,313	1,610	15,481
Hazardous	1	1	306	3,379	307	3,380
Total	**225**	**166**	**1,692**	**18,692**	**1,917**	**18,858**

* The Dutch comparative figures have been reclassified in order to comply with current years' presentation.

The large decrease from 2011 to 2012 in the amount of waste produced in Germany mainly stems from large quantities of waste metal and insulators becoming obsolete in 2011 due to improvement and renovation of overhead lines. From 2011 to 2012 the amount of waste in the Netherlands increased as a result from a rise in cleaning activities which were held in preparation for the move of TenneT's head office to new office building.

The waste data is based on the records of the various waste collection companies. The distinction between hazardous and non-hazardous waste is based on the EURAL codes. The data collected relate to high-voltage substations, office environments, and other TenneT workplaces.

The split between hazardous/non-hazardous waste in Germany in 2012 has been estimated based on the 2011 ratio.

Soil calamities

TenneT high-voltage installations contain oil for cooling (transformers) or insulation purposes (cables and components). TenneT has implemented several protective measures to prevent contamination of the environment, such as the oil separator, container and double-double walled diesel tanks for stand-by generators). In case of a calamity the oil/water/sludge mixture is collected and removed as hazardous waste by a certified waste collection company.

In 2012, TenneT reported 25 (2011: 33) soil calamities. The soil calamities can be classified as follows: 4 (2011: 8) spills occurred during the performance of work, 2 (2011: 5) contaminations occurred as a result of burst hydraulic lines, 1 (2011: 6) leakage was the result of obsolete oil cables, and 12 (2011: 9) leakages occurred as a result of problems involving other components. All calamities were reported to relevant authorities and cleaned up immediately.

Soil contamination

TenneT has an annually updated soil management plan to clean up all known contamination in the coming years. Furthermore, TenneT has entered into a third-party contract ensuring the immediate remediation of any new contamination caused by a calamity. A plan to better manage drip trays underneath transformers has been implemented and will be executed in 2013.

TenneT also uses underground electricity cables both in the Netherlands and Germany. In the Netherlands, underground cables used to be insulated with oil. These cables may cause oil contamination, usually as a result of leakage. To maintain the cables in good working order, they are kept pressurised through oil injections. Any loss of pressure is an indication of a possible leak and will prompt corrective action. New high-voltage cables are insulated using plastic and hence do not contain any oil.

In 2012, oil injections amounted to 9,506 litres (2011: 5,653 litres), an increase of 68% compared to 2011. The increase in the number of leakages results from the fact that several cable leaks were very difficult to detect and locate. These leaks have been fixed and ground cleaned up.

Groundwater contamination

Contamination of groundwater can be caused by leaking oil cables TenneT registers and monitors residual groundwater contamination to ensure that the relevant sites can be cleaned up within an acceptable timeframe. In 2012, TenneT remediated 13 contaminated sites in the Netherlands in accordance with Dutch statutory requirements; approximately 150 cubic metres of contaminated soil was removed and disposed of off-site. In addition, 9 contaminated sites were monitored in the Netherlands in accordance with statutory requirements to detect any (potential) migration of contaminants in a timely manner. No major soil and/or groundwater contamination occurred in Germany in 2012.

TenneT is conducting a study into new methods to ensure earlier detection of cable leakage locations. Improvements have also been made to TenneT's contamination registration system. Many contaminated sites have been examined and will be remediated in the coming years.

Polychlorinated biphenyls

Before the ban on the use of polychlorinated biphenyls (PCBs) in the 1980s, they were used in various high-voltage components, such as circuit breakers, current transformers, voltage transformers, feed-throughs, combined transformers and capacitor banks. In accordance with applicable regulation, TenneT replaced all the oil in circuit breakers in the Netherlands several years ago. In addition, TenneT keeps records of all remaining installed components in the Netherlands that (may) still contain PCBs. Upon revision or replacement of such component, the oil used is tested for the presence of PCBs. If the presence of PCBs is detected, the component and the oil it contains are disposed of by a certified waste collection company as hazardous waste.

In Germany, TenneT does not own any components that contain PCBs, as these were replaced during the last decade following inspections.

Asbestos

TenneT produces annual inventories in the Netherlands and Germany to identify the presence of asbestos (mainly at high-risk sites and locations where work is or will be carried out). Without prior investigation, no work is performed at locations where asbestos is suspected. If necessary, it will be removed or preventive measures will be taken. Components suspected of containing asbestos are labelled with warning stickers.
A corporate asbestos guideline, applicable for the Netherlands, was implemented in 2012 and included as an objective in TenneT's annual plans. These plans will be executed in 2013.

In Germany, TenneT had former locations suspected of containing asbestos remediated. Employees who have been exposed to asbestos are periodically assessed by the German 'Berufsgenossenschaft'. In the Netherlands, employees who have been exposed to asbestos are placed under supersvision of TenneT's medical officer.

Carbon footprint

TenneT analyses its carbon footprint based on grid losses, SF6 emissions, electricity, gas and water usage at its own offices and stations, as well as car, plane and train kilometres travelled by its employees. Grid losses occur as a result of the transmission of electricity, and are measured by taking the difference between the amount of energy fed into the system and the amount of energy coming out of the grid. Grid losses have been converted to CO_2 equivalents based on, respectively, the Dutch and German national energy production mix (sources: NL Agency, International Energy Agency).

Carbon footprint (in tonnes CO_2)						
	2012	**2012**	**2012**	**2011**	**2012**	**2011**
	NL	**D**	**Total**	**Total**	**As percentage**	**As percentage**
Grid losses	319,077	643,194	962,271	1,162,156	93.30%	97.33%
SF6 emissions	14,888	12,860	27,748	31,118	2.69%	2.61%
Energy consumption	2,939	29,376	32,315	n/a	3.13%	n.a.
Air travel	867	485	1.352	720	0.13%	0.06%
Car travel – Commute	2,429	1,188	3,617	n/a	0.35%	n.a.
Car travel – Business	2,333	1,751	4,084	n/a	0.40%	n.a.
Total	**342,533**	**688,854**	**1,031,387**	**1,193,994**	**100%**	**100%**

Carbon footprint excluding grid losses (in tonnes CO_2)						
	2012	**2012**	**2012**	**2011**	**2012**	**2011**
	NL	**D**	**Total**	**Total**	**As percentage**	**As percentage**
SF6 emissions	14,888	12,860	27,748	31,118	40,15%	97.74%
Energy consumption	2,939	29,376	32,315	n.a.	46,75%	n.a.
Air travel	867	485	1.352	720	1,96%	2.26%
Car travel – Commute	2,429	1,188	3,617	n.a.	5,23%	n.a.
Car travel – Business	2,333	1,751	4,084	n.a.	5,91%	n.a.
Total	**23,456**	**45,660**	**69,116**	**31,838**	**100%**	**100%**

Energy consumption includes gas, water and electricity usage at office as well as substation locations and is based on an estimate. Usage is calculated based on actual expenses (in EUR) divided by the average tariff paid during the year. Travel emissions were calculated based on reports from the company's third-party suppliers. The travel agent of TenneT fully compensates the CO_2 emissions resulting from air travel via certificates.

The factors used to calculate equivalent tonnes CO_2 emission are aligned with the transmission operators in the Netherlands in order to increase the transparency and uniformity of the company's reported CO_2 footprint. The following conversion factors are used:

Conversion factors CO_2 footprint	
Item (unit)	**CO_2 (tonnes)**
Grid losses (GWh)	387.7
SF6 emissions (KG)	22.8
Energy consumption:	
- Electricity (KWh)	0.0004
- Gas (M3)	0.0018
- Water (M3)	0.0002
Air travel (km)	0.0003
Car travel – Commute (km)	0.0002
Car travel – Business (km)	0.0002

Overhead high-voltage lines

Overhead high-voltage lines are often deemed as visually intrusive. For this reason, TenneT pays considerable attention to landscape integration in the Netherlands. Routes for new power lines are designed as efficiently as possible and efforts are made to use as many straight sections as possible. Moreover, plants, trees and hedgerows may be used to enhance the integration of a high-voltage line within the landscape. Finally, TenneT takes the visual impact into account when designing new pylons, such as the innovative Wintrack pylon. The Dutch government has the ambition to freeze the number of kilometres of overhead lines in the Netherlands, therefore new 380 kV overhead lines are built as much as possible as overhead combi-lines (existing 150/110 kV-overhead lines will be removed). New 150/100 kV connections will normally be built as underground cable.

Underground cable installation

As underground cables are often deemed more appealing by local residents from a visual perspective, TenneT aims to provide such underground connections as long as they do not jeopardise the security of supply. As a result, no more than 20 kilometres of cable can be installed underground at the highest voltage level (220 kV and 380 kV) in the Netherlands. However, at lower voltage levels there are fewer security of supply concerns and hence new 110 kV and 150 kV connections are frequently installed underground to minimise the impact. In addition, in the Netherlands one kilometre of existing overhead 110 kV or 150 kV line is relocated below ground or decommissioned for every kilometre of new overhead line at the highest voltage levels (220 kV and upwards), provided the new line cannot be combined with an existing connection.

High-voltage substations

In 2010, TenneT commissioned a study into the options for landscape integration of high-voltage substations in the Netherlands comparing substations which are constructed above or below ground level. The study concluded that it is feasible to build substations which are partly or completely below ground level, depending on the type of landscape. At a central meeting of Cigre in Paris in 2012, a paper and poster campaign building on this study were presented to the international electricity community.

Electromagnetic fields

Electromagnetic fields arise when electric current flow in a conductor, including around high-voltage lines, cables and substations. The maximum field strength to which the general public in the Netherlands is allowed to be exposed is 100 microtesla (μT). This value is currently not exceeded anywhere in built-up areas. In addition and based on the precautionary principle, the Dutch government advises in relation to the routing of new overhead lines to prevent new situations in which children will be exposed to more than 0.4 microtesla as much as possible. New houses etc. should not be build in the 0.4 microteslazone of existing overhead lines. TenneT designs routes of new overhead lines such that sensitive properties (such as homes and schools, for example) are bypassed as much as possible, i.e. to avoid such properties ending up in the magnetic field zone. Where this is not feasible, residents can opt to be bought out and compensated.

To minimise the electromagnetic foothprint TenneT has developed a new type of pylon, the so called Wintrack. This concept reduces not only the visual impact as mentioned before but also substantially reduces the total width of the 0.4 microteslazone.

TenneT informs stakeholders about the location of the magnetic field zone of new cable connections, substations or reconstructed power lines. In this respect TenneT provides full transparency to its stakeholders.

Bird protection

During the bird breeding season TenneT adapts all its maintenance or construction activities to this. Birds' nests in pylons are only removed when the nest is abandoned, or essential work needs to be carried out to ensure the security of supply or for safety reasons.

TenneT aims to reduce the number of bird casualties caused by collisions with high-voltage lines. Therefore the company has installed wire coils and flight diverters. In addition, rotating bird flight diverters have been installed in corner pylons to prevent birds from nesting.

Land management assessment

Construction of new high-voltage infrastructure may negatively impact the land management value of the soil. Examples are soil compaction, negative effects on microorganisms, the deterioration of the soil due to contamination or impoverishment, the spreading of soil diseases or disturbance of plot drainage.
TenneT uses land management assessments in advance to prevent negative consequences for the land management value of the soil.

08 Corporate Governance

TenneT has chosen to adhere to the Dutch Corporate Governance Code on a voluntary basis. The principles and best practice provisions laid down in the Code provide effective operating guidelines for TenneT and its majority subsidiaries.

Corporate Governance structure

TenneT's corporate governance bodies are comprised of the Supervisory Board, the Management Board and the General Meeting of Shareholders. The company's external auditor and the company's internal audit department also play an important part in the corporate governance structure.

Management Board

The Management Board of TenneT Holding B.V. has four statutory directors (as stipulated in the company's articles of association) and one non-statutory director. TenneT Holding B.V.'s members of the Management Board have joint authority to represent the company. Each board member also holds limited individual power of attorney.

The Management Board is responsible for the general policy and strategy of TenneT Holding B.V. Its remit encompasses regulated and unregulated activities. Regarding the unregulated activities, a policy has been set up to determine the sort of activities which can be executed.

Supervisory Board

The Supervisory Board oversees the general policy and strategy of TenneT and carries out its duties in the interests of the company and all relevant stakeholders, while taking due account of the aspects of corporate social responsibility that are relevant to TenneT. The Supervisory Board operates at the level of TenneT Holding B.V. Following an amendment of the Electricity Act, TenneT is subject to a mitigated statutory two-tier regime ('structure regime').

The Supervisory Board has created a preferred profile of its composition which takes into account the nature of the company as well as the required expertise and background of Supervisory Board members. The Supervisory Board aims to achieve diversity in its composition. The Supervisory Board must consist of at least three members. At present it has five members. Individual members may not serve more than three terms of four years. The members step down in accordance with a predetermined resignation rota.

The Supervisory Board has selected a number of its members to form an Audit Committee, a Remuneration and Appointments Committee and a Strategic Investments Committee.

The Audit Committee is charged with monitoring the company's financial reporting, including quarterly and annual reports, financial reporting policy, internal control mechanisms, strategic risk assessment, the independent external audit of the financial statements and the evaluation of the external auditor.

The Remuneration and Appointments Committee is tasked with the company's remuneration policy and the remuneration of individual board members. The Remuneration and Appointments Committee also establishes criteria for the appointment of new board members and supervises the recruitment process.

The Strategic Investments Committee makes a prepatory analysis for the Supervisory Board on investment proposals submitted by the Management Board; the committee assesses whether such proposals are compatible with the company's economic, financial and technical objectives as well as the risk profile.

Procedures have been established to govern the operation of the Supervisory Board, the Audit Committee, the Remuneration and Appointments Committee and the Strategic Investments Committee.

All information regarding the Supervisory Board (such as its rules and resignation rota) are presented on the corporate website.

General Meeting of Shareholders

All shares in the capital of TenneT are held by the State of the Netherlands, which is represented by the Ministry of Finance. Under the Electricity Act 1998, shares in the company may be held only by the State of the Netherlands.
A General Meeting of Shareholders is held within six months of the end of each financial year. The agenda includes discussion of the annual report, adoption of the financial statements and dividend and discharge of liability of members of the Management Board and the Supervisory Board for their respective activities in the past year. Other General Meetings of Shareholders are held as and when deemed necessary by the Management Board, Supervisory Board or shareholder deems necessary.

External auditors

The General Meeting of Shareholders has the power to appoint external auditors to audit the annual financial statements prepared by the Management Board. The external auditors report on their audit to the Supervisory Board and the Management Board and present the findings of their audit under 'Opinion on the financial statements, Management Letter and Board Report'.

The performance of the external auditors is evaluated every year by the Management Board and the Audit Committee and, if necessary, also by the Supervisory Board.

The external auditors attend relevant meetings of the Audit Committee. They also attend the Supervisory Board meeting in which the external auditors' report on the financial statements is discussed and the financial statements are approved.

Deviations from the Corporate Governance Code

The reasons why certain principles and best-practice provisions in the Corporate Governance Code do not apply to TenneT and/or why and to what extent TenneT decided not to adopt the principles and best-practice provisions are explained below:

Management Board

II.2.4 to II.2.7. TenneT does not operate a system of remuneration in the form of share options because the State of the Netherlands is its sole shareholder.

Supervisory Board

III.2.2. Three of the dependence criteria have not been adopted by TenneT. Two of these criteria concern Supervisory Board members with shareholdings in the company, which is not applicable to TenneT. The third criterion relates to a Supervisory Board member who has temporarily been charged with the management of the company in the event of the Management Board being unavailable or incapacitated (see III.6.7).

III.5. If the Supervisory Board consists of more than four members, the Corporate Governance Code stipulates that the Supervisory Board shall appoint from among its members an Audit Committee, a Remuneration and Appointments Committee, and a Selection and Appointments Committee. The TenneT Supervisory Board has combined the tasks of the latter two key committees in a Remuneration and Appointments Committee. The Supervisory Board has also established an Audit Committee and a Strategic Investments Committee, both made up of Supervisory Board members.

III.6.6. No delegated Supervisory Board member is in office at TenneT.

III.6.7. A Supervisory Board member who temporarily takes charge of the company in the event of the unavailability or incapacity of the Management Board will in principle step down temporarily from the Supervisory Board. On completion of the supervisory director's managerial duties, the Supervisory Board and the General Meeting of Shareholders will decide whether this director can rejoin the Supervisory Board. The duration of the director's managerial duties may be one of their considerations.

III.7.1 and III.7.2. These provisions deal with shareholdings of Supervisory Board members and do not apply to TenneT.

III.8.1 to III.8.4. These provisions concern single-tier management; as TenneT is subject to a mitigated statutory two-tier regime, these provisions do not apply to TenneT.

General Meeting of Shareholders

The following best-practice provisions pertaining to the General Meeting of Shareholders do not apply to TenneT:

IV.1.1. Non-structure-regime company

IV.1.2. Voting rights in respect of financing preference shares

IV.1.3. Public disclosure of a bid

IV.1.7. Registration date of voting rights

IV.2.1 to IV.2.8. Depositary receipts for shares

IV.3.1 Dealings with analysts, financial press and institutional investors

IV.3.7. Shareholder circular

IV.3.11. Protective mechanisms

IV.3.12. Voting proxies and voting instructions

IV.3.13. Policy governing bilateral contacts with shareholders

IV.4.1 to IV.4.3. Responsibility of institutional investors

09 Risk management & internal control

At TenneT risk management constitutes an integral part of an effective management control system.

Key objectives of the risk management and internal control system are to provide assurance on:

- The adequacy of management of those risks that threaten the realisation of TenneT's strategic and business objectives
- Compliance with applicable laws and legislations (e.g. Dutch Corporate Governance Code, German Business Control and Transparency Act and the German Accounting Law Reform Act)
- The reliability of sound financial and management reporting.

The risk management system is based on comprehensive bottom-up and top-down assessments on a wide range of risks (financial, safety, reliability of supply, environment, etc.). These risks are assessed against a uniform set of criteria, continuously managed and reported in a uniform structured manner.

The Corporate Risk Management department regularly reports to the Management Board, Supervisory Board and Audit Committee, all of which are involved in the discussion of the main risks and the functioning of the risk management and internal control framework within TenneT.

In 2012 a number of adjustments to the risk management system were initiated. The corporate risk management function was reorganised and incorporated in the Corporate Control department in order to increase the focus on the strategic risks of the entire organisation. In addition, new reporting formats for strategic and operational risk management were introduced.

Risk appetite

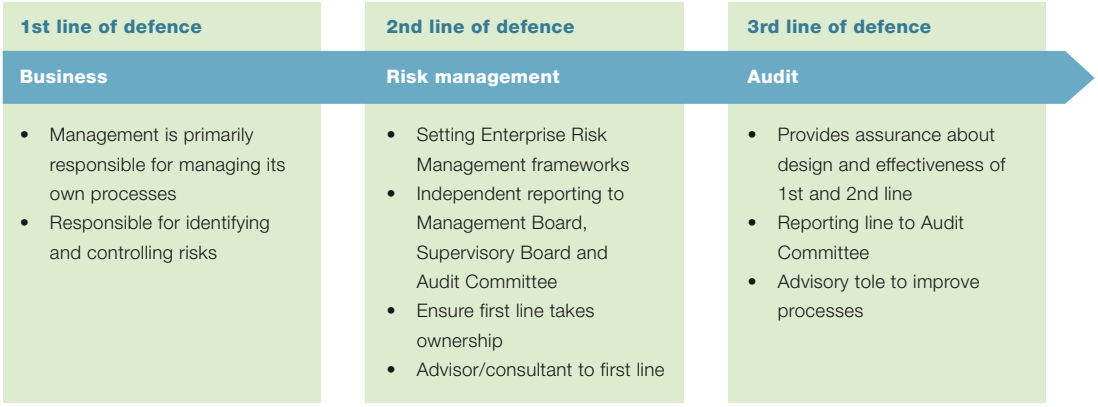
TenneT is responsible for ensuring the continuity and reliability of its electricity grid in the Netherlands and Germany at all times. The company's main goal is to maintain the required quality standards and provide the agreed capacity. In addition, TenneT has formulated a number of strategic and operational objectives. In pursuing these objectives, TenneT strives to delineate its (financial and non-financial) risk appetite. The company has defined its risk appetite along the following seven dimensions: quality of supply, safety, financial performance, customers, reputation, environmental issues and compliance. TenneT's risk appetite has been quantified and set out in a risk matrix, which is used to determine and rate the impact of the risks identified within the company. The risk matrix has been approved by the Management Board and is evaluated every two years.

Roles and responsibilities

The risk management system forms an integral part of the 'three lines of defence model', which describes the relationship and the allocation of responsibilities between the business/internal controls, risk management and internal audit.

TenneT is responsible for ensuring the continuity and reliability of its electricity grid at all times

Three lines of defence model



1st line of defence: Business
Line and staff managers bear primary responsibility for identifying and controlling the risks within their processes by using an appropriate internal control framework.

Internal controls within the company combined with the results of an intensified internal audit programme throughout the reporting year reasonably ensure the reliability of the processes and therefore the reliability of the financial and management reporting resulting therefrom. The continuous functioning of these internal controls, including necessary improvements thereof, has the company's unremitting attention. During 2012 a wide range of measures aimed to strengthen the internal control framework has been developed and implemented. This process will continue during 2013, to finalise establishment of a stable and mature internal control framework, capable to cope with the continuous growth and increased complexity of TenneT's business.
In addition to a financial control framework, a tax and IT control framework have been implemented to ensure that the processes within tax and IT are compliant with internal rules and regulations as well as external legislation.

2nd line of defence: Risk management
The Corporate Risk Management department is responsible for the control and coordination of the risk management system and has a facilitating role towards the business.

TenneT's enterprise risk management (ERM) system is based on the international COSO II model (Committee of Sponsoring Organizations of the Treadway Commission). This model has been widely accepted as a leading enterprise risk management model for larger companies. The COSO II model uses the strategy of the company as a starting point and defines four types of risk: strategic, operational, financial/ reporting and compliance.
ERM considers activities at all levels of the organisation: enterprise, division or subsidiary and business unit processes. ERM is used within TenneT's Asset Management department as part of the investment decision making process. Additionally, project risk management helps to ensure that large-scale infrastructure projects are realised within time, quality specifications and budget.

3rd line of defence: Internal audit
Operational audits form an integral part of TenneT's risk management and internal control systems. Internal audits provide an insight into how and to what extent the risks that may jeopardise the achievement of TenneT's objectives are being controlled. The purpose of these audits is to provide management with additional assurance on the effectiveness of the internal control of processes.
The Audit department schedules its audits based on a three-year cycle, adjusted annually to reflect the latest operational and strategic risk assessments performed by the Corporate Risk Management department. Specific audits are

planned during the year to target areas of heightened sensitivity or particular interest. The annual audit plan is submitted to the Management Board and Audit Committee for approval.

The Audit department reports its findings to the Audit Committee and the Management Board. The Supervisory Board/Audit Committee is informed annually about the results of the audits performed during the year, and about the trends identified by the Audit department. The status of follow-up actions is reported periodically in the quarterly reports.

Overview of main risks

TenneT's main risks are all risks that threaten the 'in control' position of TenneT. An overview of the main risks is provided below, including the actions to mitigate these risks. The risks have been categorised into the four types of risk as defined by the COSO II model.

Strategic risks

The strategic risks relate to TenneT's strategic objectives as defined by the company's Management Board read as follows:

- ensuring the security of power supply in the area which TenneT serves at all times
- leading the further integration of Northwest European electricity market, including the integration of renewable energy sources.

A strategic risk assessment is performed on an annual basis at TenneT. Each strategic risk has been assigned to a responsible member of the Management Board, who evaluates the development of the risk, the existence of control activities and the so-called 'key risk indicators'. The results of the strategic risk assessment are discussed in the Supervisory Board and Audit Committee. Based on a strategic risk analysis conducted in 2012, the Management Board identified the most important strategic risks which are presented in the table below.

Strategic risk	Risk mitigating actions
Grid Performance Increased number of incidents/interruptions caused by more intensive grid usage in combination with condition of the grid or an terrorist attack.	• increase speed of replacements and investments and introduction of improved IT systems • training of employees to be prepared for emergency situations • collaboration with other TSOs and contracting of extra reserve power.
Equity financing TenneT is unable to raise sufficient risk-bearing capital to execute its investment programme. As a result, the company's credit rating and access to debt capital may be affected.	• regulatory lobbying activities to ensure that regulatory framework remains attractive for investors • approach of potential investors • internal privatisation readiness programme for an eventual future partial privatisation of TenneT.
Regulatory/political environment Structural changes in regulatory framework or political changes which negatively impact TenneT's return or position.	• continuously invest in relationship between TenneT, regulators and ministries • being proactive towards regulators (e.g. developing a master plan and strategic model).
Realisation of investment projects Potential insufficient control of infrastructural projects may cause inefficient and/or delayed investments.	• intensive project control • introduction of alternative ways of tendering contracts to solve supplier constraints • active stakeholder management to speed up the permit and licensing procedures.
Reputation Risk of reputational damage if incidents/interruptions occur and as a result of resistance of the general public to new routes to be built.	• communication plan in case of negative events • communicate the role and importance of TenneT for the future energy transition (renewable energy) • internal position papers on relevant topics.

Operational risks

The primary operational risks associated with TenneT's transmission services are failures to maintain the required quality standards and failure to provide the agreed capacity.

In order to remain in control with respect to these risks, TenneT Netherlands formulates a Quality and Capacity Plan once every two years. The plan is reviewed by the Dutch regulator. The 'Vision 2030' document analyses long-term developments affecting the Dutch electricity supply and their impact on TenneT. Each year TenneT Germany and the other German TSOs jointly draw up a grid development plan to safeguard the electricity supply for the next 10 to 20 years. This plan requires approval by the regulatory authority (the Federal Network Agency). The process of drawing up and reviewing these plans provides insight for management into how to achieve the required quality standards and provide the required market capacity.

The operational risks affecting the various departments are identified and analysed each quarter by the Corporate Risk Management department. The TenneT risk matrix is used to determine the likelihood and impact of the risks identified and to assess whether these risks do not exceed TenneT's risk appetite. The respective departments produce quarterly reports detailing the status of operational risks and the progress made in controlling them. Specific operational risk reports are also drawn up periodically under the German Business Control and Transparency Act and the German Accounting Law Reform Act. Each quarter a summary of the most important operational risks of TenneT Holding is produced for the Management Board and Supervisory Board.

The most important operational risks for TenneT Holding are presented in the table below.

Operational risk	Risk mitigating actions
Complexity of system operations Due to higher infeed of renewable energy demand and supply imbalances in the grid are more prevalent.	• introduction of improved IT systems to monitor and manage the grid • installation of reactive power compensation units.
Offshore risks TenneT Germany Delays in connecting offshore wind parks and not meeting the availability criteria for the DC systems.	• intensive project monitoring to ensure that large-scale infrastructure projects are realised within time, quality specifications and budget • documentation of external factors impacting timelines • lobbying activities to improve the legal and regulatory framework.
Realisation of portfolio Gap between planned and realised projects/portfolio. In the long term the condition of the grid deteriorates.	• increasing speed of replacement of crucial components • evaluations of projects (PDCA) and project monitoring.

Financial and reporting risks

A strong financial base, access to capital and reliable reporting are essential for TenneT. Failure to achieve financial objectives will have a negative effect on TenneT and its stakeholders. TenneT defines financial risks as uncertainties that may affect the company's financing conditions, interest rate and liquidity position.

A broader description of TenneT's financial risks and the risk mitigating actions is presented separately in the notes to the financial statements ('Financial risk management'). In the table below a summary of the most important financial and reporting risks of TenneT Holding are presented.

> The respective departments produce quarterly reports detailing the status of operational risks and the progress made in controlling them

Financial risk	Risk mitigating actions
Transaction clearing risk Risks within APX-ENDEX, balancing systems TenneT TSO B.V. and TenneT TSO GmbH.	• setup of a margining framework within APX-ENDEX • requirement of security and collateral for external parties with programme responsibility.
Treasury risks Market risk, credit risk, liquidity risk, refinancing risk.	• majority of debt portfolio is based on fixed interest rates • requirement of minimum ratings of counterparties • setup of credit facilities with additional room to meet the financial obligations.
Reporting risk Reporting integrity risks.	• preparation of internal accounting manuals • preparation of internal control frameworks (financial, IT, tax framework).

Compliance and regulatory risks

TenneT aims to comply with all national and international legislation and technical standards. Any breach of the legislations may have negative financial and operational consequences. TenneT's activities that are not in compliance with relevant regulations and legislation are considered key risks that demand ongoing management attention.

TenneT distinguishes the following areas of interest with regard to compliance:

- general/legal compliance
- financial compliance
- technical compliance.

The managers of relevant departments are responsible for being aware of relevant changes in laws or regulations and for implementing the corresponding changes in their processes. As a secondary control in the area of technical compliance, the Technical Compliance officer conducts regular investigations to assess whether TenneT's activities are compliant with the technical standards.

The table below includes examples of legislation, mitigating actions and departments involved with regard to the three compliance areas.

Compliance risk	Risk mitigating actions
General/legal compliance Risks regarding European tendering, bilateral agreements between TenneT and other TSOs, etc.	• active involvement of legal experts from Legal Affairs and Procurement • adequate registration of decisions and contracts by Legal Affairs and the departments involved.
Financial compliance Risks regarding IFRS, Dutch Corporate Governance Code, German Business Control and Transparency Act, German Accounting Law Reform Act, etc.	• active involvement of financial experts within Corporate Control and the departments involved.
Technical compliance Risks pertaining to Electricity Law and Technical Codes, ENTSO-e operational handbook, Electrical Safety Regulations and Standards, etc.	• technical compliance assessments by the Technical Compliance Officer within Corporate Safety & Security • cooperation with regulatory authorities by Regulation & Grid Economics department.

Regulatory risks
Changes to the regulatory framework will directly affect TenneT's activities, since the company obtains nearly all its revenues from regulated activities.

In view of the different regulatory regimes in the two countries, specific regulatory risks affecting TenneT in the Netherlands and in Germany have been summarised below.

Regulatory risks TenneT TSO B.V. Netherlands
The Office of Energy Regulation of the Netherlands Competition Authority (NMa) sets the levels of 'permissible revenues' for providing transmission and system services. The so-called 'Method Decisions' for the new regulatory period (starting 1 January 2014) specify the method for determining the level of permissible revenues and related tariffs. The regulatory regime is based on the principle that TenneT's tariff revenues must not exceed the 'efficient costs' incurred by the company. The Office of Energy Regulation sets the level of efficient costs based on the actual costs that TenneT incurs in a particular year, the level of efficiency presently achieved by the company and potential productivity improvements in the coming period.

The Office of Energy Regulation derives the efficient cost levels and potential productivity improvements (the 'frontier shift') from international benchmarks. For the new regulatory period starting 1 January 2014 the international benchmark is at present performed by the National Regulatory Authority (NRA). The outcome of this new benchmark study determines to a large extent the efficient cost level. The permissible revenues for TenneT is based on this efficient cost level. For the first time the costs of the high-voltage grid will be subject to an international benchmark.

During 2012, TenneT lodged an appeal with the Netherlands Trade and Industry Appeals Tribunal (CBb) to challenge the Method Decisions for the transmission and system services applied in the current regulatory period 2011-2013, particularly with respect to the general non-transparency and methodological errors/flaws of the benchmark, and the application of the efficiency score to the regulatory (EHS) asset base built before 2001. In its verdict dated February 2012, the Industry Appeals Tribunal rejected the majority of TenneT's complaints.

To mitigate the risk of an unexpected or incorrect outcome of the international benchmark, TenneT started a so-called shadow benchmarking exercise with other TSOs to challenge the methodology of the benchmark. TenneT is also in continuous discussions with the NMa to convince the regulator of the flaws of the benchmark and to investigate possible alternative ways to determine the efficient cost level of TenneT.

In general, the NMa extensively supervises the activities of TenneT regarding the financial position and the management system for maintaining the quality and capacity of the high-voltage grid. In respect of the financial position, TenneT needs to be compliant with regulations regarding the financial health of a grid company. If TenneT is not compliant, TenneT shall need to inform the regulator and present a plan to recover its financial position. The ultimate risk is that TenneT will be restricted by the regulator in its financial operations (e.g. no payment of dividend).
The NMa performs several audits to investigate whether TenneT complies with all regulations regarding quality and capacity management. TenneT runs the risk that the regulator sanctions TenneT for non-compliance. To mitigate this risk, TenneT obtained the NTA8120-certificate for its asset management processes in 2012.

The NMa approves or disapproves certain corrections in the annual tariff setting. In the approval process TenneT runs the risk that certain costs cannot be recouped because the regulator decides negatively on a request for correcting the revenues. This risk is also run for the repayment of unduly paid system services tariffs. To mitigate this risk TenneT is in constant dialogue with the regulator on these subjects.
TenneT's major expansion investments have been subject to a new legal framework since 1 July 2011. The prior consent of the Ministry of Economic Affairs, Agriculture and Innovation is required for the effectiveness of these investments. The risk remaining for TenneT arises when the NMa assesses retrospectively whether the major expansion investments were carried out efficiently.

TenneT attempts to mitigate regulatory risks as far as possible by informing and having preliminary discussions with the NMa, the Ministry of Finance and the Ministry of Economic Affairs on the effects of the prevailing regulatory framework.

Regulatory risks for TenneT Germany
With effect from 28 December 2012, a new offshore liability regime has been implemented which grants the operators of offshore wind farms an independent of guilt claim for reimbursements for financial damages caused by connection delays or interruptions. The risk of the offshore liability is not fully covered by the offshore liability charge. While the TSO responsible for making the connection can in general pass on damage payments made on these grounds to end-consumers, the amount which can be passed on can be reduced by deductibles in the event of negligence or wilful misconduct. In the event simple negligence, a deductible of EUR 17.5 million per incident and connection is in place. While there is no explicit deductible in the event of gross negligence (which is assumed in case of connection delays), there is an overall annual cap of EUR 110 million on deductibles for either simple and/or gross negligence. In the event of wilful misconduct on the side of the connecting TSO, no damage payments can be passed on. TenneT expects to be able to contract an insurance cover for the damage payments set out above.

Under the German Incentive Regulation Ordinance (*Anreizregulierungsverordnung*), the Federal Network Agency may set a deviating lump sum amount for offshore operating expenses.

A formal procedure for that purpose was initiated in 2011. TenneT Germany submitted formal comments. The regulator decided to set an offshore lump sum percentage of 3.4% of the total capital invested. This has reduced the risk of an insufficient lump sum compensation. The offshore lump sum percentage does not include offshore grid losses. In general, the grid losses could either be reimbursed via a voluntary negotiated agreement (VNA) or be considered as yet another cost item in the horizontal cost balancing itself. Negotiations with the BNetzA are being conducted to secure reimbursement of these costs.

On 9 November 2012, BNetzA refused to grant TenneT Germany the TSO certification due to a perceived lack of financial resources despite recommendations to the contrary by the European Commission and indicated that an administrative offence proceeding may be started, where a potential fine of up to EUR 1 million may be determined. BNetzA, however, explicitly stated that TenneT is still obliged to operate and invest in its grid and BNetzA has no doubts that TenneT continues to fulfil its duties and functions as grid operator. As a matter of course TenneT keeps fulfilling its tasks as grid operator. Nevertheless the non-certification could lead to reputational damage for TenneT Germany. TenneT Germany has filed a lawsuit against the decision of the Federal Network Agency and we are confident that this issue will be solved.

The international benchmarking mentioned for TenneT Netherlands is currently also in progress for TenneT Germany. The results will form the basis for the individual efficiency factor for each TSO for the second regulatory period starting in 2014. So far TenneT Germany deemed 100% efficient by the BNetzA.

In general, TenneT Germany further endeavours to mitigate regulatory risks by informing and discussing the prevailing regulatory regime with the Federal Network Agency and the Federal Ministry of Economics and Technology.

In-control Statement

The Management Board is responsible for the design and operation of TenneT's internal risk management and control system and for reviewing the effectiveness of the system.

The risk management and internal control system consists of the following range of coordinated instruments:

- the enterprise risk management system which identifies, analyses and monitors the relevant risks of TenneT Holding
- business plans, quarterly reports and flash reports with information about the corporate objectives and the achievements thereof
- tax, IT and Financial control frameworks to manage the critical processes;
- internal audits of critical processes and discussions about the follow-up of the audit findings with responsible managers
- follow-up of the recommendations from the external auditor's management letter
- signing of a 'Letter of Representation' by TenneT's Management Board.

The Management Board has reviewed and analysed the strategic, operational, financial and compliance risks to which TenneT is exposed. The Management Board assesses the design and effectiveness of the risk and control system on a regular basis. The results have been shared with the Audit Committee, the Supervisory Board and the external auditor.

The risk management and control system does not provide absolute assurance on the achievement of the corporate objectives, nor does it give absolute assurance that material errors, losses, fraud or violations of laws and regulations will not occur in the operational processes and/or the financial reporting.

With due regard to the above, the Management Board is of the opinion that TenneT's risk management and control systems provide a reason¬able degree of assurance that the financial reporting does not contain any errors of material significance and that the risk management and control systems operated adequately and safeguarded timely the identification of new risks with regard to the financial reporting risks in the year under review.

Statement of responsibility

We confirm that the financial statements for the period 1 January 2012 to 31 December 2012 have, to the best of our knowledge, been prepared in compliance with IFRS and that the disclosures in the financial statements give a true and fair view of TenneT's assets, liabilities, financial position and results as a whole, and that the disclosures in the Integrated Annual Report give a true and fair view of the performance, results and position of TenneT, together with a description of the most significant risks and uncertainty factors faced by TenneT.

Arnhem, 7 March 2013

J.M. Kroon *)
M.J. Fuchs *)
E.T.A. de Boer *)
B.G.M. Voorhorst *)
A.A. Hartman

*) Statutory director

10 Report by the Supervisory Board

From left to right: Jan Vugts, Pieter Verboom, Aad Veenman, Fokko van Duyne and Rien Zwitserloot.

This decade TenneT faces significant challenges. Preparing and modernising the grid to support future electricity transmission needs requires major investments - both onshore and offshore. The Supervisory Board is closely involved in the development of these activities, both as supervisor and adviser.

Composition of the Management Board and Supervisory Board

Management Board
In 2012, the composition of the Management Board remained unchanged. The Management Board consists of four statutory directors and one non-statutory director. Further information on Management Board members can be found under 'Other Information.'

Supervisory Board
The Supervisory Board's composition changed in the year under review. Mr C. Griffioen retired from the Supervisory Board after serving for 12 years, also as chairman of the Audit Committee. TenneT appreciates his great contribution and dedication over these years. Mr. P.M. Verboom was appointed member of the Supervisory Board on 18 September 2012 and chairs the Audit Committee.

The Supervisory Board consists of five members; further information on the members can be found under 'Other Information'. Members of the Supervisory Board step down periodically by rotation according to a resignation rota which is published on the company's corporate website. All Supervisory Board members are independent within the meaning of both the Corporate Governance Code and the Electricity Act 1998. None has any direct or indirect links with legal persons (or shareholders thereof) engaged in the production, purchase or supply of electricity or gas.

Supervisory Board meetings

The Supervisory Board met on six occasions during the year under review. None of the Supervisory Board members was frequently absent from the Supervisory Board meetings. TenneT's performance in its key areas of safety and security of supply were discussed during every meeting. The financing of the company in view of the large investments made in the German offshore projects was one of the Supervisory Board's key points of attention. These offshore investments were discussed in a wider context than just on their financial merits. The renewal of the German Energy Act was a recurring topic, as well as the TSO certification procedure both in the Netherlands and Germany. In 2012, the strategic risk assessment process was revised and the ensuing strategic risks were discussed and evaluated. The meetings also addressed:

- progress of projects
- financial statements for the 2012 financial year and appropriation of profit
- interim results for the 2012 financial year (internal quarterly reports and external interim financial statements)
- annual business plan for 2013 and mid-term planning 2013-2017
- risk management
- strategic risk analysis evaluation
- regulatory issues
- remuneration policy
- information technology
- evaluation of the performance of the Management Board and Supervisory Board.

The shareholder and the Supervisory Board also conferred with one another on several occasions outside the General Meeting of Shareholders.

Supervisory Board committees

Three committees support the Supervisory Board, consisting of members of the Supervisory Board. The main task of these committees is to prepare and advise the plenary Supervisory Board's discussion and decision-making on specific delegated subjects. The chairmen of the committees report at the Supervisory Board meetings on the subjects discussed at their committee meetings. The agendas, documents and minutes of the committee meetings are submitted prior to the meeting to the Supervisory Board. The committee meetings were fully attended.

One of the members of the Supervisory Board, Mr. Vugts, is also a member of the *Aufsichtsrat*, the Supervisory Board for the German company TenneT TSO GmbH.

Audit Committee

In the first half of 2012, the Audit Committee consisted of Mr. Griffioen (chairman) and Mr. Vugts. Mr. Griffioen retired from the Supervisory Board and the Audit Committee in June 2012. Subsequently, Mr. Verboom was appointed member of the Supervisory Board and Chairman of the Audit Committee. The committee met on seven occasions in the year under review in the presence of the Management Board. Three of these meetings were attended by our auditor PricewaterhouseCoopers Accountants N.V.

At these meetings the financial statements for the 2011 financial year, the 2012 internal quarterly reports and the 2012 interim results were discussed and approved. Furthermore, general financing topics were addressed and special attention was paid to the financing of German offshore projects and the revision of the strategic risk management procedure. Furthermore an Audit Charter was developed governing the roles and responsibilities of the Supervisory Board, Audit Committee and external auditor.

The meetings also covered:

- management letters for 2012
- auditor's reports
- annual business plan for 2012-2016
- treasury report
- internal audit report
- tax report
- risk management, evaluation strategic risk analysis
- accounting issues, involving mainly the harmonisation of the application of IFRS to the Dutch and German TSOs
- cash management
- tender of audit services.

Remuneration and Appointments Committee

In 2012, the Remuneration and Appointments Committee consisted of Mr. Van Duyne (chairman) and Mr. Veenman. The committee met on four occasions during the year under review, each in the presence of the chairman of the Management Board and the senior HR manager.

Subjects discussed by the Remuneration and Appointments Committee at its meetings included:

- performance of statutory directors of the Management Board
- review of senior management and succession planning
- proposals for variable remuneration of statutory directors of the Management Board
- the 2012 remuneration report
- recruitment and selection of a member of the Supervisory Board.

A separate chapter in this annual report is devoted to the 2012 Remuneration Report.

Strategic Investments Committee
In 2012, the Strategic Investments Committee consisted of Mr. Van Duyne (chairman), Mr. Veenman and Mr. Zwitserloot. The committee met on four occasions in the year under review, each in the presence of members of the Management Board. The Strategic Investments Committee assesses whether investment proposals of the Management Board are compliant with the company's strategy and economic, financial and technical objectives. Substantial and complex proposed investments in in the Dutch and German onshore grids and German offshore grid connections were on the agenda.

Supervisory Board performance appraisal
In the autumn of 2011, the Supervisory Board evaluated its own performance, under supervision of an external facilitator. The results of the evaluation were further discussed during 2012.

Contacts with the Works Council

The Supervisory Board attaches great importance to a good working relationship with the Works Council. In November 2012, the Supervisory Board met with the Works Council and the Management Board to discuss various relevant subjects. Throughout the year, the chairman of the Supervisory Board, Mr. Veenman, held regular meetings with members of the Works Council to keep abreast of issues covered by Works Council's remit. Contacts between the Supervisory Board and the Works Council again proved valuable in the year under review, especially in view of developments in the energy market in general and at TenneT in particular. The Supervisory Board greatly appreciates the way in which the various subjects were addressed. In Germany the company has a legal obligation to inform the 'Wirtschaftsausschuss' (special body organised by the Betriebsrat) on a regular basis.

Financial statements

The Supervisory Board has examined the 2012 Annual Report, the 2012 financial statements and the auditor's report issued by PricewaterhouseCoopers Accountants N.V. The Supervisory Board endorses these documents and recommends adoption of the financial statements by the General Meeting of Shareholders.

The Supervisory Board recommends that the General Meeting of Shareholders discharge the Management Board from liability in respect of its management of the company and release the Supervisory Board from liability in respect of its supervision for the year under review.

Word of appreciation

In the year under review TenneT's work safeguarded the security of supply as well as its safety performance. The company's efforts resulted in solid financial results and success in key matters like the financeablity of German offshore projects.
The Supervisory Board recognises these achievements and would therefore like to thank the members of the Management Board and all TenneT managers and employees for their contribution and continuous commitment.

Arnhem, 7 March 2013

A.W. Veenman (chairman)
J.F.T. Vugts (vice-chairman)
J.F. van Duyne
P.M. Verboom
R.G.M. Zwitserloot

11 Remuneration report

Introduction

The Remuneration Report sets out the current remuneration policy for the statutory directors of TenneT Holding B.V., as approved by the shareholder. The Remuneration Report specifies any adjustments in salary for the members of the statutory directors in 2012, the extent to which the targets have been attained, and the resulting awards of variable remuneration. The report also specifies the remuneration received by the members of the Supervisory Board.

Remuneration policy of TenneT Holding B.V.

The remuneration policy is determined by the shareholder and, with effect from 2011, is applicable to new directors who have been appointed after this date or who are still to be appointed. The most important elements of the remuneration policy are:

Employment market reference group

In determining the level of remuneration of the directors of TenneT a comparison is made with organisations who conduct similar activities, and hence operate within the same employment market as TenneT.

These organisations include:

- international Transmission System Operators (TSOs)
- infrastructure operators
- installation specialists/engineering firms
- construction companies
- financial institutions.

The companies in the reference group are divided into three subgroups, (semi) public (50%), private (25%) and international TSOs (25%). The remuneration norm for TenneT directors is determined on the basis of the level of the (weighted) median of the subgroups and the specific responsibilities of the position concerned.

Fixed salary

The application of the mentioned employment market reference method results in a remuneration norm for TenneT directors that exceeds the maximum desired by the shareholder of EUR 347,000 (as at 1 January 2010). The shareholder also places importance on testing this remuneration ceiling against the remuneration of a group of reference companies relevant to TenneT, comprising 75% (semi) public and 25% market companies.

On the appointment of a new member of the Management Board, the Supervisory Board shall, at the request of the shareholder, limit the sum of fixed and variable remuneration to a maximum of EUR 347,000 (as at 1 January 2010). With a view to a balanced remuneration within both the Management Board and the next level of senior management, the maximum fixed and variable remuneration of the vice chairman shall be between that of the CEO and those of the CFO and COO.

If, in the opinion of the Supervisory Board, this leads to unacceptable risks to the organisation, because the available candidates do not have the right profile and the necessary experience, the Supervisory Board shall consult with the shareholder.

The Supervisory Board will determine the amount of any annual increase in the fixed salary. If the total remuneration of a new director has reached the maximum level, any increase will be limited to the percentage established by the relevant Collective Labour Agreement (CAO).

Variable salary
In order to encourage the achievement of the company's objectives, part of the directors' remuneration is linked to the attainment of certain challenging personal targets which are set in advance by the Supervisory Board, including those of a public or societal nature. Performance targets fall into four categories: Organisation (human resources, safety and security of supply), Strategy, Finances, and Operations. The comparative weighting of these performance categories will vary from one year to the next, and will differ according to the individual director's portfolio. Each category includes certain public or societal objectives, the attainment of which will account for no less than 20% of the total performance-related salary.

The variable salary includes two separate components: the annual performance-based variable remuneration, which is limited to 25% of the fixed annual salary, and the variable remuneration based on long-term performance of no more than 10% of the fixed annual salary. The latter component is payable in respect of the achievement of performance targets agreed for a period of three years. To preclude major fluctuations in the total annual remuneration, the long-term variable component will be paid annually in the form of an advance payment, based on progress to date. The final calculation of the long-term variable component will be performed at the end of the relevant three-year period, after which - pursuant to the claw back clause - part of the variable remuneration which was paid in advance can be reclaimed.

If, within a reasonable period after determining the variable remuneration, it is established that the award needs to be adjusted as a result of insights that were not known when the award was made, the Supervisory Board shall decide whether and the extent to which the award of the variable remuneration needs to be revised.

Compensation for early termination
Directors are appointed to the Management Board for a period of four years. If the contract is terminated by the organisation within that period, compensation ('severance pay') will generally be limited to the equivalent of one year's fixed salary. If such compensation is considered unreasonable, up to two years' fixed salary may be paid at the discretion of the Supervisory Board, following consultation with the shareholder.

Other allowances and secondary benefits
The total remuneration package for directors includes an appropriate and fiscally acceptable allowance for necessary expenses, the use of a lease car (of a type comparable to the vehicles provided to the directors of similar organisations), accident and director' and officers' liability insurance, and thirty days' paid leave per annum. Secondary benefits also include a nominal contribution towards health insurance premiums, and the choice of other flexible individualised benefits. In addition, directors receive a percentage of their fixed salary in the form of an employer's contribution to the life course savings scheme. The exact percentage is established by Collective Labour Agreement. The above benefits are applicable to all other TenneT employees. The company does not extend loans, loan guarantees or advances against future earnings.

Employment contracts of directors appointed before 2011
To the extent that the employment contracts of directors who were appointed before 2011 differ from the remuneration policy determined in 2012, the agreed employment terms and conditions will be respected. The most important deviations from the current remuneration policy relate to the non-applicability of the long-term variable remuneration and remuneration norm.

Remuneration of the Management Board

Fixed remuneration
With effect from 1 January 2012 and in accordance with the indexation for employees with a job contract, the salaries of the statutory directors have been indexed at 1.6%. In addition, the Supervisory Board has awarded an minimal increase exclusively to the operations director. This increase is based on the assessment of the performance and experience of the director and a comparison of his fixed remuneration with what is usual for comparable functions in the employment market in the Netherlands. In light of the developments in the remuneration market, it has been decided to limit the maximum remuneration to 90% of the median for the fourth consecutive year. The increase for the operations director conforms with this decision.

In 2013, in accordance with the legally imposed crisis levy dated 18 July 2012, the company shall pay an additional EUR 44,000 on the combined Dutch fiscal income of the statutory directors in 2012.

Variable remuneration

Based on achievement of present targets,
the Supervisory Board decided to award the Management Board members variable payment realisation percentages between 82 and 87,5%, which resulted in the following remunerations over 2012:

(x EUR 1,000)	Fixed remuneration		Variable remuneration	
	2012	2011	2012	2011 [4]
J.M. Kroon Chairman Management Board	322	317	71	75
M.J. Fuchs Vice-chairman Management Board	264	260	231	211
B.G.M. Voorhorst Chief Operating Officer	243	229	50	50
W.A. Keus [1] Chief Financial Officer	-	60	-	-
E.T.A. de Boer [2] Chief Financial Officer	234	20	75 [3]	-

1) Mr Keus passed away on 29 March 2011.
2) Mr De Boer was appointed director with effect from 1 December 2011 by the shareholder.
3) Variable remuneration including provision for payment of long-term variable remuneration, which will be finally awarded after determining the realisation of long-term objectives at the end of 2014.
4) The Supervisory Board has determined that there are no insights which give reason to revise the variable remuneration that was paid out in previous years.

Pension costs

The pensions of all Dutch members of the Management Board are administered by the ABP Pension Fund, which in 2012 increased its pension premium from 22.2% in 2011 to 24.4%. The pension accrual is based on a midpoint salary system. Besides the ABP pension, the Chief Executive Officer will accrue additional pension to facilitate retirement at 61 years of age, under a non contributory pension plan agreed with him when he joined the company.

The pension entitlements of the German director are accrued through a reserve on the balance sheet of TenneT TSO GmbH. The annual entitlement accrual amounts to 1.5% of the fixed salary.

In 2012, the pension contributions and pension reserves amounted to (in thousands of EUR):

J.M. Kroon, Chairman Management Board: 143 (2011: 135)
M.J. Fuchs, Vice-chairman Management Board: 178 (2011: 175)
B.G.M. Voorhorst, Chief Operating Officer: 43 (2011: 38)
W.A. Keus, Chief Financial Officer, deceased 29 March 2011 (2011: 10)
E.T.A. de Boer, Chief Financial Officer, appointed 1 December 2011: 42 (2011: 3)

Remuneration of the Supervisory Board

With effect from 1January 2012 and consistent with prior years, the remuneration and committee fees of Supervisory Board members were adjusted by 2.5%. Each Supervisory Board member sits on one or two committees.

To ensure a good balance between national and international interests, one of the members of the Supervisory Board is a member of the Supervisory Board (*Aufsichtsrat*) of TenneT TSO GmbH.

The composition of the committees is as follows:

(x EUR 1,000)	Audit Committee	Remuneration and Appointments Committee	Strategic Investments Committee	Aufsichtsrat TenneT TSO GmbH
A.W. Veenman		X	X	
J.F.T. Vugts	X			X
C. Griffioen [1]	X			
J.F. van Duyne		X	X	
R.G.M. Zwitserloot			X	
P.M. Verboom [2]	X			

1) Retired on 11 June 2012
2) Appointed on 18 September 2012

The remuneration for the committees of the Supervisory Board and the Aufsichtsrat in 2012 were as follows:

Audit Committee	€ 6,480.00 per annum
Remuneration and Appointments Committee	€ 5,125.00 per annum
Strategic Investments Committee	€ 5,125.00 per annum
Aufsichtsrat TenneT TSO GmbH	€ 5,500.00 per annum

The total remuneration received by the Supervisory Board members in 2012 is set out in the table below:

(x EUR 1,000)							
		Fixed remuneration		Committee		Total remuneration	
		2012	2011	2012	2011	2012	2011
Chairman	A.W. Veenman	27	26	10	10	37	36
Vice-chairman	J.F.T. Vugts	22	21	12	12	34	33
Member	C. Griffioen RA [1]	10	19	3	6	13	25
Member	J.F. van Duyne	20	19	10	10	30	29
Member	R.G.M. Zwitserloot	20	19	5	5	25	24
Member	P.M. Verboom [2]	7	-	2	-	9	-

1) Retired on 11 June 2012
2) Appointed on 18 September 2012
3) The legally imposed crisis levy is nil for members of the Supervisory Board

Revision of remuneration policy of the Supervisory Board
In 2012 the remuneration policy of the Supervisory Board was revised. A comparison was made with the remuneration of members of supervisory boards of organisations that are comparable to TenneT, using the same reference group that was applied for determining the remuneration level of the Management Board. Despite the growth and development of the company, a slight deficiency in the remuneration and the social developments in respect of the responsibilities of supervisors and regulators, it was decided to continue to apply the current remuneration policy for the Supervisory Board unchanged for the time being.

Temporary expansion of the Supervisory Board
Several members of the Supervisory Board are to retire in the coming years which will lead to changes in the membership of the board. To ensure the continuity of the Supervisory Board, the shareholder has given its approval to the temporary appointment of a sixth member, of which no use has yet been made.

12 2012 Financial Statements TenneT Holding B.V.

These financial statements comprise:

- Consolidated statement of income
- Consolidated statement of comprehensive income
- Consolidated statement of financial position
- Consolidated statement of changes in equity
- Consolidated statement of cash flows
- Notes to the consolidated financial statements
- Company statement of income
- Company statement of financial position
- Notes to the company financial statements

To the financial statements have been added:

- Appropriation of profit
- Events after the reporting period
- Independent auditor's report

Consolidated statement of income for the year ended 31 December (in EUR million)

	Note	2012	2011
Revenue	6.1	**1,647**	**1,567**
Operating expenses			
Energy and capacity expenses	6.2.1	756	584
Transmission grid and system expenses	6.2.2	144	134
Personnel expenses	6.2.3	149	129
Depreciation and amortisation of assets	7.1, 7.2	232	220
Impairments	7.1	9	-
Impairment reversal	7.1	-120	-2
Other losses/(gains) - net	6.2.4	-12	-11
Other operating expenses	6.2.5	152	131
Total operating expenses		**1,310**	**1,185**
Operating profit		**337**	**382**
Finance income	6.3	15	13
Finance expenses	6.3	-115	-73
Finance result		**-100**	**-60**
Profit before income tax		**237**	**322**
Income tax expense	7.4	57	91
Share of (loss)/profit of associates	7.3	-	-
Profit for the year		**180**	**231**
Profit attributable to:			
Equity holders of the company		177	229
Non-controlling interests		3	2
		180	**231**

Earnings per share attributable to the equity holders of the company during the year (expressed in EUR per share)

	Note	2012	2011
Basic and diluted earnings per share	7.12	885	1,145

Consolidated statement of comprehensive income (in EUR million)

		Attributable to equity holders of the company				Non-controlling interest	Total
		Other reserves	Retained earnings	Unappro-priated result	**Total**		
	Note	*7.12*	*7.12*			*7.12*	
2011							
Actuarial loss on defined benefit pensions	7.15	-	-10	-	-10	-	-10
Cash flow hedges ended	7.12	9	-	-	9	-	9
Amortisation of hedges	7.12	1	-	-	1	-	1
Direct equity movements in associates	7.3	-	-1	-	-1	-	-1
Taxation	7.4	-2	3	-	1	-	1
Total other comprehensive income 2011		**8**	**-8**	**-**	**-**	**-**	**-**
Profit for the year		-	-	229	229	2	231
Total comprehensive income 2011		**8**	**-8**	**229**	**229**	**2**	**231**
2012							
Actuarial loss on defined benefit pensions	7.15	-	-36	-	-36	-	-36
Amortisation of hedges	7.12	1	-	-	1	-	1
Direct equity movements in associates	7.3	-	-1	-	-1	-	-1
Taxation	7.4	-	9	-	9	-	9
Total other comprehensive income 2012		**1**	**-28**	**-**	**-27**	**-**	**-27**
Profit for the year		-	-	177	177	3	180
Total comprehensive income 2012		**1**	**-28**	**177**	**150**	**3**	**153**

Consolidated statement of financial position (in EUR million)				
Assets	**Note**	**2012**	**2011**	**1 January 2011**
Non-current assets				
Tangible fixed assets	7.1	7,008	5,194	4,184
Intangible assets	7.2	118	122	151
Investments in associates	7.3	19	20	17
Deferred tax assets	7.4	1	2	1
Available-for-sale financial assets	7.5	1	1	1
Other financial assets	7.6	14	17	17
Total non-current assets		**7,161**	**5,356**	**4,371**
Current assets				
Inventories	7.7	10	10	23
Account- and other receivables	7.8	2,032	1,570	1,696
Financial assets	7.9	35	26	201
Income tax receivable	7.4	41	6	6
Cash and cash equivalents	7.10	96	710	769
		2,214	**2,322**	**2,695**
Assets of disposal group classified as held for sale	7.11	680	924	-
Total current assets		**2,894**	**3,246**	**2,695**
Total assets		**10,055**	**8,602**	**7,066**

Consolidated statement of financial position (in EUR million)				
Equity and liabilities	**Note**	**2012**	**2011**	**1 January 2011**
Equity	7.12			
Equity attributable to owners of the company		2,123	2,082	1,306
Non-controlling interests		220	17	15
Hybrid securities		498	498	497
Total equity		**2,841**	**2,597**	**1,818**
Non-current liabilities				
Borrowings	7.13	2,671	2,580	1,572
Deferred income	7.14	211	172	124
Deferred tax liability	7.4	416	396	383
Provisions	7.15	186	128	110
Other liabilities	7.16	5	24	16
Total non-current liabilities		**3,489**	**3,300**	**2,205**
Current liabilities				
Account- and other payables	7.17	1,519	1,356	1,366
Borrowings	7.13	886	17	762
Other financial liabilities	7.18	30	36	724
Deferred income	7.14	4	4	-
Income tax payable	7.4	17	53	34
Provisions	7.15	278	63	56
Other liabilities	7.19	357	295	101
		3,091	**1,824**	**3,043**
Liabilities of disposal group classified as held for sale	7.11	634	881	-
Total current liabilities		**3,725**	**2,705**	**3,043**
Total equity and liabilities		**10,055**	**8,602**	**7,066**

Consolidated statement of changes in equity (in EUR million)

		Attributable to equity holders of the company						Non-controlling interest	Hybrid securities	Total equity
		Paid-up and called-up capital	Share premium reserve	Other reserves	Retained earnings	Unappro-priated result	**Total**			
	Note	*7.12*	*7.12*	*7.12*	*7.12*			*7.12*	*7.12*	
Balance at 1 January 2011		**100**	**-**	**-6**	**1,135**	**77**	**1,306**	**15**	**497**	**1,818**
Total comprehensive income		-	-	8	-8	229	229	2	-	231
Capital contribution	7.12	-	600	-	-	-	600	-	-	600
Dividends paid	7.12	-	-	-	-	-20	-20	-	-	-20
Distribution on hybrid securities	7.12	-	-	-	-	-44	-44	-	-	-44
Taxation	7.12	-	-	-	-	11	11	-	1	12
Appropriation remaining prior year profit		-	-	-	24	-24	-	-	-	-
Balance at 31December 2011		**100**	**600**	**2**	**1,151**	**229**	**2,082**	**17**	**498**	**2,597**
Total comprehensive income		-	-	1	-28	177	150	3	-	153
Dividends paid	7.12	-	-	-	-	-60	-60	-	-	-60
Distribution on hybrid securities	7.12	-	-	-	-	-33	-33	-	-	-33
Sale to non-controlling interest	7.12	-	-	-	-10	-14	-24	99	-	75
Capital contribution	7.12	-	-	-	-	-	-	101	-	101
Taxation	7.12	-	-	-	-	8	8	-	-	8
Appropriation remaining prior year profit		-	-	-	144	-144	-	-	-	-
Balance at 31 December 2012		**100**	**600**	**3**	**1,257**	**163**	**2,123**	**220**	**498**	**2,841**

Consolidated statement of cash flows for the year 2012 (in EUR million)

	Note	2012		2011	
Operational activities			**180**		**231**
Profit for the year					
Non-cash adjustments to reconcile profit to net cash flows:					
Depreciation, amortisation and impairment (reversal) of assets	7.1, 7.2	121		218	
Gain on disposal of tangible and intangible fixed assets	6.2.4	-12		-11	
Finance income	6.3	-15		-13	
Finance expenses	6.3	115		73	
Income tax expense	7.4	57		91	
Increase in deferred income	7.14	39		48	
Movements in provisions and other (financial) liabilities and assets		32		235	
			368		**641**
Working capital adjustments:					
(Increase)/decrease in trade and other receivables		-861		126	
(Increase)/decrease in inventories		-		13	
Increase/(decrease) in trade and other payables		162		316	
Increase/(decrease) in other current (financial) liabilities		-179		-175	
			-878		**280**
Income tax paid			-83		-42
Net cash flows from operating activities			**-444**		**1,110**
Investing activities					
Purchase of tangible and intangible fixed assets	7.1, 7.2	-1,623		-954	
Proceeds from sale of tangible and intangible fixed assets		15		47	
Capital contribution to associate	7.3	-		-4	
Contributions to financial assets	7.6, 7.9	-19		-44	
Proceeds from repayment of financial assets	7.9	10		24	
Interest received		5		21	
Net cash flows used in investing activities			**-1,612**		**-910**
Financing activities					
Proceeds from borrowings	7.13	3,259		996	
Repayment of borrowings	7.13	-2,295		-757	
Debt issuance costs	7.13	-		-3	
Proceeds from sale of financial instruments		-		9	
Interest paid		-107		-78	
Proceeds from capital contribution from equity holders of the company	7.12	300		300	
Dividends paid to equity holders of the company	7.12	-60		-20	
Proceeds from sale to non-controlling interests	7.12	80		-	
Capital contributions by non-controlling interests	7.12	101		-	
Distribution on hybrid securities	7.12	-33		-44	
Net cash flows from financing activities			**1,245**		**403**
Net change in cash and cash equivalents			**-811**		**603**
Cash and cash equivalents at 31 December	7.10	478		1,289	
Cash and cash equivalents at 1 January	7.10	1,289		686	
			-811		**603**

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1. Corporate information

1.1. General

The consolidated financial statements of TenneT Holding B.V. and its subsidiaries (hereafter referred to as 'TenneT' or 'the Group' for the year ended 31 December 2012 were authorised for issue in accordance with a resolution of the Supervisory Board on 7 March 2013.

TenneT Holding B.V. is a leading electricity transmission system operator in the Netherlands through its subsidiary TenneT TSO B.V. and in a substantial part of Germany through its subsidiary TenneT TSO GmbH. With 20,000 kilometres of high-voltage lines and 36 million end users, it ranks among Europe's top 5 electricity transmission system operators.

As an electricity transmission system operator (TSO), TenneT's principal tasks are to provide (1) power transmission services, by constructing and maintaining a robust high-voltage grid, (2) system services, by maintaining the balance between supply and demand of electricity 24 hours a day, 7 days a week and (3) facilitating the market in order to have a liquid, stable electricity market with prices in line with the surrounding countries.

These activities are governed by the provisions of relevant legislation in the Netherlands and Germany. Regulatory authorities oversee TenneT's compliance with these provisions. In the Netherlands, the regulated activities are carried out by TenneT TSO B.V. and its subsidiaries. In Germany, these tasks are carried out by TenneT TSO GmbH, TenneT Offshore GmbH and its subsidiaries.

In addition to its regulated activities, TenneT auctions cross-border transmission capacity and develops and manages electricity connections to other countries (interconnectors). TenneT holds shares in a number of Northwest European energy exchanges. These unregulated activities are the direct responsibility of TenneT Holding B.V. and are performed to support the energy market to ensure that it operates smoothly and efficiently. TenneT further manages part of the infrastructure required to send and receive broadcasting and telecom signals.

The State of the Netherlands holds the entire issued share capital of TenneT Holding B.V. The head office (and legal seat) is located at Arnhem in the Netherlands and TenneT TSO GmbH's main office is located at Bayreuth in Germany.

1.2. Main developments and changes in the Group structure

Change in accounting policies
In 2012 TenneT has decided to change its accounting policy and to bring it in line with the industry practice. As a result of this change in accounting policy, certain restatements and reclassification adjustments in the previously issued financial statements have been identified. Further details on the change in accounting policies are disclosed in note 3.3.

It is noted that TenneT Holding's Management Board assesses performance and allocates resources based on underlying financial information instead of information reported in accordance with IFRS. Underlying financial information is used in the segment reporting as included in note 5 of the consolidated financial statements. For a summary of the accounting policies applied, reference is made to note 3 of the consolidated financial statements.

Provision for system services fees
Following a court decision in the Netherlands an obligation for TenneT arose to repay past system services fees to electricity consumers without a direct connection to a grid maintained by a TSO. The total provision for this matter amounts to EUR 243 million. Further details on this matter are disclosed in note 7.15.

Impairment reversal
Up till and including 2011 the company recorded an accumulated impairment loss amounting to EUR 134 million on tangible fixed assets(220/380kV) recognised in the statement of financial position. This impairment was based on the Method Decision for the fifth regulatory period laid down by the Office of Energy Regulation where TenneT's 220/380kV-grids were declared partially inefficient (43%).

At 31 December 2012, solely based on the inclusion of auction receipts as part of cash inflow for impairment testing purposes, an indication existed that the economic performance of the assets may be better than expected due to a change in an accounting estimate. This indication has been confirmed by the impairment test prepared as at 31 December 2012. As a result the accumulated impairment losses up till 2011 are reversed to their full extent. After taking into account additional depreciation expenses to be recognised if no impairment had originally been recorded, the reversal amounts to EUR 120 million. For the avoidance of doubt, the negative cash flow impact resulting from the above mentioned Method Decision remained unchanged.

Further details on this matter are disclosed in note 7.1.

New entities associated with German offshore projects
In 2012 fifteen entities were established in Germany. The new entities are used for the several German offshore projects and are included in the list of legal entities under note 2.2.

Sale of a non-controlling interest to Mitsubishi Corporation
In December 2012 TenneT sold a 49% voting interest in TenneT Offshore 2. Beteiligungsgesellschaft GmbH to a subsidiary of Mitsubishi Corporation for an amount of EUR 80 million. As part of this sale the subsidiary of Mitsubishi Corporation obtained a 69% economic interest in the net equity of TenneT Offshore 2. Beteiligungsgesellschaft GmbH as per 1 July 2011 and its results as of this date. The total transaction effect on TenneT's equity attributable to the equity holders of the company amounts to EUR -24 million. Subsequent to the sale of the non-controlling interest, the subsidiary of Mitsubishi Corporation made a capital contribution of EUR 101 million to TenneT Offshore 2. Beteiligungsgesellschaft GmbH. TenneT retained the power to control.

Partial sale of APX-ENDEX after the reporting period
In March 2013 the gas activities of APX-ENDEX were split off, whereby TenneT sold its interest in the gas activities in return for a cash payment as well as an additional equity interest in the remainder of APX-ENDEX. As a result TenneT's shareholding in APX-ENDEX changed from 56.1% to some 67%, for which TenneT is committed to a sale plan which could lead to loss of control. The effect on TenneT's equity attributable to owners of the parent is approximately EUR 30 million. The sale will be recognised in 2013.

2. Basis of preparation

2.1. General basis for preparation

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union.

The consolidated financial statements have been prepared on a historical cost basis, except for derivative financial instruments and available-for-sale financial assets that have been measured at fair value. The consolidated financial statements are presented in euros and all values are rounded to the nearest million (€ '000'000), except when otherwise indicated.

The preparation of the financial statements in conformity with IFRS requires use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in chapter 2.3.

2.2. Basis for consolidation

The consolidated financial statements comprise the financial statements of the TenneT Holding B.V. and its subsidiaries as at 31 December 2012.

Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date when such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All intercompany balances, transactions, unrealised gains and losses resulting from intercompany transactions and dividends are eliminated in full.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group ceases to have control over a subsidiary, it derecognises the assets (including goodwill) and liabilities of the subsidiary, any non-controlling interest and the cumulative translation differences recorded in equity. Furthermore, the Group recognises the fair value of the consideration received, the fair value of any investment retained, and any surplus or deficit in profit or loss. Finally, the parent's share of components previously recognised in other comprehensive income are reclassified to profit or loss or retained earnings, as appropriate.
The Group's interests in jointly controlled entities are accounted for by proportionate consolidation. The Group combines its share of the joint ventures' individual income and expenses, assets and liabilities and cash flows on a line-by-line basis with similar items in the Group's financial statements. The Group recognises the portion of gains or losses on the sale of assets by the Group to the joint venture that is attributable to the other ventures. The Group does not recognise its share of profits or losses from the joint venture that result from the Group's purchase of assets from the joint venture until it resells the assets to an independent party. However, a loss on the transaction is recognised immediately if the loss provides evidence of a reduction in the net realisable value of current assets, or an impairment loss.

The following legal entities are included in the consolidation:

	Share of capital held
TenneT Holding B.V., Arnhem	
Relined B.V., Utrecht	(50%)
TenneT Orange B.V., Arnhem	(100%)
TenneT TSO Duitsland B.V., Arnhem	(100%)**
TenneT Duitsland Coöperatief U.A., Arnhem	(100%)**
TenneT Verwaltungs GmbH, Bayreuth	(100%)
TenneT GmbH & Co. KG, Bayreuth	(100%)
• TenneT TSO GmbH, Bayreuth	(100%)
• TenneT Offshore GmbH, Bayreuth	(100%)
• TenneT Offshore 1. Beteiligungsgesellschaft GmbH, Bayreuth	(51%)
• TenneT Offshore 2. Beteiligungsgesellschaft GmbH, Bayreuth	(51%)
• TenneT Offshore 4. Beteiligungsgesellschaft GmbH, Bayreuth	(100%)
• TenneT Offshore 7. Beteiligungsgesellschaft GmbH, Bayreuth	(100%)
• TenneT Offshore 8. Beteiligungsgesellschaft GmbH, Bayreuth	(100%)
• TenneT Offshore 9. Beteiligungsgesellschaft GmbH, Bayreuth	(100%)

• TenneT Offshore 10. Beteiligungsgesellschaft GmbH, Bayreuth	(100%)
• TenneT Offshore 11. Beteiligungsgesellschaft GmbH, Bayreuth	(100%)
• DC Netz Beteiligungs GmbH, Bayreuth	(100%)
• DC Netz GmbH, Bayreuth	(100%)
• DC Netz BorWin3 GmbH, Bayreuth	(100%)
• DC Netz BorWin4 GmbH, Bayreuth	(100%)
• DC Netz BorWin5 GmbH, Bayreuth	(100%)
• DC Netz SylWin2 GmbH, Bayreuth	(100%)
• DC Netz DolWin3 GmbH, Bayreuth	(100%)
• DC Netz DolWin4 GmbH, Bayreuth	(100%)
• DC Netz HelWin1 GmbH, Bayreuth	(100%)
TransTenneT B.V., Arnhem	(100%)**
TenneT Blue B.V., Arnhem	(100%)**
APX-ENDEX Holding B.V., Amsterdam	(56.1%)
• APX-ENDEX Power B.V., Amsterdam	(100%)
• APX-ENDEX Gas B.V., Amsterdam	(100%)
• APX Commodities Ltd., Nottingham, UK	(100%)
• APX-ENDEX Clearing B.V., Amsterdam	(100%)
• APX-ENDEX Derivatives B.V., Amsterdam	(100%)
• Belpex S.A., Brussels, Belgium	(100%)
NOVEC B.V., The Hague	(100%)
• Omroepmasten B.V., Vianen	(100%)
• Duvekot Rentmeesters B.V., Bathmen	(100%)
NLink International B.V., Arnhem	(100%)**
• BritNed Development Ltd., London, UK	(50%)
TenneT TSO B.V., Arnhem	(100%)
• CertiQ B.V., Arnhem	(100%)
• Saranne B.V., Arnhem	(100%)**
• TSO Auction B.V., Arnhem	(100%)
• B.V. Transportnet Zuid-Holland, Voorburg	(100%)**
• HS Netten Zeeland B.V., Middelburg	(100%)**
• Nadine Netwerk B.V., Arnhem	(100%)**
• TenneT TSO E B.V., Arnhem	(100%)**
• Reddyn B.V., Arnhem	(50%)
Stichting Beheer Doelgelden Landelijk Hoogspanningsnet, Arnhem	(0%)*

* The consolidation also includes Stichting Beheer Doelgelden Landelijk Hoogspanningsnet (hereafter 'the Foundation for the Management of Allocated Funds from the National High-Voltage Grid') which is based in Arnhem. The Foundation for the Management of Allocated Funds from the National High-Voltage Grid is included in the consolidation because TenneT can exercise direct control over its management and financial and operational policy. The Foundation for the Management of Allocated Funds from the National High-Voltage Grid aims to temporarily manage the allocated funds which TenneT TSO B.V., in its capacity as administrator of the Dutch national transmission grid, collects during the fulfilment of its statutory tasks. Cash and cash equivalents held by the Foundation for the Management of Allocated Funds from the National High-Voltage Grid are recorded as an asset under 'Cash and cash equivalents' and are further specified as 'Funds not at free disposal' (see note 7.10 Cash and cash equivalents).

** For these companies TenneT has issued a declaration of liability as referred to in Book 2, Part 9, Section 403 of the Netherlands Civil Code.

2.3. Significant accounting judgments, estimates and assumptions

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

Areas of judgment that have the most significant effect on the amounts recognised in the financial statements relate to the identification of cash generating units, the classification of activities as 'held for sale'.

Estimates that need to be made by management relate to the useful lives of non-current assets (notes 7.1 and 7.2), the impairment review of non-current assets (notes 7.1 and 7.2), the establishment of provisions (note 7.15), revenue recognition (note 6.1), costs of maintaining and operating transmission grids (note 6.2.2) and the determination of fair values for financial instruments (note 4.2.6). Estimates are based on historical quoted market prices, experience and other assumptions that are considered reasonable under the relevant circumstances.

3. Summary of accounting principles applied

3.1. Summary of significant accounting policies

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interest in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

Goodwill is initially measured at cost and represents the excess of the consideration transferred over TenneT's interest in the value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the amount of the non-controlling interest in the acquiree.

After initial recognition, goodwill is measured at cost less than any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating unit (CGU), or Groups of CGUs, that is expected to benefit from the synergies of the combination. Each CGU or Group of CGUs to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level. Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a triggering event.

Where goodwill has been allocated to a CGU and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

Segmentation

The financial information is segmented according to the Group's activities. The operating segments reflect the management structure of the Group. From a product perspective, TenneT Holding's Management Board distinguishes between the performance from a geographic perspective, in which the Management Board separately considers the performance of the regulated activities in the Netherlands and in Germany.

TenneT Holding's Management Board assesses performance and allocates resources based on underlying financial information instead of information reported in accordance with IFRS. This underlying financial information is based on the principle to recognise 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.

An example of such future settlement is the excess or shortfall amount resulting from the differences between ex-ante forecasts and ex-post realisations of transmission volumes. Both in the Netherlands and Germany it is common practise that such differences are adjusted by the regulator via tariffs applicable in future periods. In addition, in the underlying financial information, receipts from auctioning of cross-border transmission capacity, which either have to be returned to customers through future tariff reductions or to be used for future infrastructure investments, are recorded as a liability and not as profit.

The principle behind the underlying information is that all regulatory revenues and expenses are matched with each other during a corresponding reporting period. TenneT's Management Board believes that the presentation of underlying financial information leads to a sound, consistent and transparent financial insight into current and future business developments.

Foreign currencies

The Group's consolidated financial statements are presented in euros, which is also the parent company's functional currency. For each entity the Group determines the functional currency and items included in the financial statements of each entity are measured using that functional currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or the dates of the valuation when items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit-and-loss account, except for monetary items that are designated as part of the hedge of the Group's net investment of a foreign operation. These are recognised in other comprehensive income until the net investment is disposed of, at which time, the cumulative amount is reclassified to profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of gain or loss on change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in other comprehensive income or profit or loss are also recognised in other comprehensive income or profit or loss, respectively).

Distinction between current and non-current

An asset (liability) is classified as current when it is expected to be realised (settled) within 12 months after the balance sheet date.

Offsetting

Assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

EEG (Erneuerbare-Energien-Gesetz) revenues and expenses in essence should be equal, except for the EEG bonus. The revenues are charged based on estimated costs. Costs include the purchase of energy from suppliers, the sale of energy at the exchange and other costs like interest of the EEG bank accounts. All arising differences between actual costs and estimated costs will be charged to the customers and recognised in the statement of financial position as an accrual in the receivables or liabilities. There are final settlements for the received deliveries from the power plants and for the invoiced revenues to the energy suppliers. Price differences are recognised in the calculation of the next EEG surcharge. EEG revenues and EEG expenses are presented net in the statement of income.

KWK-G (Kraft-Wärme-Kopplungs-Gesetz) revenues and expenses in essence should be equal. Revenues are charged based on estimated costs. All arising differences between actual costs and estimated costs will be charged to the customers and recognised in the statement of financial position as an accrual in the receivables or liabilities. There are final settlements on both the expenses and the revenue side. KWK-G revenues and KWK-G expenses are presented net in the statement of income.

Revenues and expenses relating to sec. 19 par. 2 Electricity Grid Ordinance (Stromnetzentgeltverordnung, StromNEV) are netted in the profit and loss statement because of reasons similar to those applicable to EEG and KWK-G amounts. TenneT is acting as an agent with respect to these services.

Revenue recognition

General
Revenue primarily represents the sales value derived from the connection and transmission of energy together with the sales value derived from the provision of other services to customers during the year. Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made.

Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. Revenue includes an assessment of unbilled connection and transmission services supplied to customers between the date of the last meter reading and the year-end. In the situation where the revenue received or receivable exceeds the maximum amount permitted by the regulator and adjustments will be made to future prices to reflect this over-recovery, no liability is recognised since this adjustment relates to the provision of future services. Similarly no asset is recognised in situations where the regulator permits adjustments to be made to future prices in respect of an under-recovery.

Investment contributions
The Group receives fees from certain third parties for construction of a new substation, a grid connection or increased capacity for its connection. At initial recognition, the fee is measured at fair value and recognised as deferred income ('investment contribution') and recognised as revenue over the related asset's useful life.

Finance income
For all financial instruments measured at amortised cost and interest bearing financial assets classified as available for sale, interest income is recorded using the effective interest rate method. The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability.

Income taxes

Current income taxes
Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the countries where the Group operates and generates taxable income. Current income tax relating to items recognised directly in equity and not in the statement of income.

Deferred tax
Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date. Deferred tax liabilities are recognised for all taxable temporary differences, except for taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except for deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity. Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Tangible fixed assets

Tangible fixed assets are valued at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of the asset and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of the asset are required to be replaced at intervals, such parts are recognised as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major maintenance is performed, its cost is recognised in the carrying amount of the asset as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in profit or loss as incurred. The present value of the expected cost for the decommissioning of an asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met.

Depreciation is calculated on a linear basis, assuming the useful life of the various asset types to be as follows:

Estimated useful lives tangible fixed assets		Years
Substations	Earthing switches, isolating switches, power cut-out switches	20-35
	Security and control equipment	10-20
	Power transformers	20-35
	Capacitor banks	20-35
	Telecommunications equipment	10-20
Connections	Pylons/lines	35-40
	Cables (underground)	20-40
Other	Office buildings	40-50
	Office ICT equipment	3-5
	Process automation facilities	5
	Other company assets	5-10

Land (and its preparation for building) is not subject to depreciation.

The residual values, useful lives and methods of depreciation the assets are reviewed at each financial year-end and adjusted prospectively, if appropriate.

An asset is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of income when the asset is derecognised.

Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the profit-and-loss account on a straight-line basis over the period of the lease.

Leases in which a significant portion of the risks and rewards of ownership are transferred to the lessee are classified as financial leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is charged to the profit-and-loss account over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The assets acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. No borrowing costs are capitalised in the situation were borrowing costs are directly compensated in the year of construction,

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Intangible assets

Intangible assets comprise goodwill (see separate section), software, customer contracts and other. Other intangible assets mainly consist of purchased rights to use lands.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in profit and loss in the period in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite. Intangible assets with finite lives are amortised over the estimated useful life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the statement of income as the expense category that is consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis. Currently the intangible assets with indefinite useful lives only comprise goodwill.

The useful life of the various intangible asset types is as follows:

Estimated useful lives intangible assets	Years
Goodwill	Indefinite
Software	3-5
Customer contracts	10-14
Purchased rights to use land	25-45
Other	5-15

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the statement of income when the asset is derecognised.

Research costs are charged directly against the operating result. Development costs relate to the costs of a new technological development of an asset. Such costs are capitalised as an intangible asset if the project in question is likely to be successful, in view of its commercial and technical feasibility, and if the costs can be reliably ascertained.

Impairment of non-financial assets

At each reporting date, TenneT assesses whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the asset's recoverable amount is estimated. The recoverable amount is the higher of an asset's or cash-generating units (CGU) fair value less costs to sell and its value in use. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used.

The impairment calculation is based on detailed budgets and forecast calculations, which are prepared separately for each of the CGU to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Investment in associates

An associate is an entity in which the Group has significant influence, but no control. Investment in associates are accounted for using the equity method. Under the equity method, the investment in the associate is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment. The income statement reflects TenneT's share of the results of operations of the associate. When there has been a change recognised directly in the equity of the associate, TenneT's share of any change is recognised in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the amount of impairment is calculated as the difference between the recoverable amount of the associate and its carrying value, then recognises the loss as 'Share of losses of an associate' in the statement of income.

Upon loss of significant influence over the associate, any retained investment is valued at fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in the statement of income.

Financial assets

General

Financial assets are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or as available-for-sale financial assets, as appropriate. The Group determines the classification of its financial assets at initial recognition. All financial assets are recognised initially at fair value plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss. The subsequent measurement of financial assets depends on their classification, which is further set out below.

A financial asset is derecognised when the rights to receive cash flows from the asset have expired or when the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a pass-through arrangement.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value presented as finance costs (negative net changes in fair value) or finance income (positive net changes in fair value) in the income statement. Financial assets designated upon initial recognition at fair value through profit or loss are designated at their initial recognition date and only if the criteria under IAS 39 are satisfied. The Group has not designated any financial assets at fair value through profit or loss.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance income in the statement of income. The losses arising from impairment are recognised in the income statement in finance costs for loans and in cost of sales or other operating expenses for receivables.

Held-to-maturity investments
Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the Group has the positive intention and ability to hold them to maturity. After initial measurement, held to maturity investments are measured at amortised cost using the effective interest rate, less impairment.

Available-for-sale financial investments
Available-for-sale financial investments include equity investments and debt securities. Equity investments classified as available for sale are those that are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those that are intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, available-for-sale financial investments are subsequently measured at fair value with unrealised gains or losses recognised as other comprehensive income in the available-for-sale reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in other operating income, or the investment is determined to be impaired, when the cumulative loss is reclassified from the available-for-sale reserve to the statement of income.

Derivative financial instruments
TenneT uses derivative financial instruments, such as forward currency contracts and interest rate swaps to hedge its foreign currency risks and interest rate risks. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. Any gains or losses arising from changes in the fair value of derivatives are taken directly to the statement of income.

Hedge accounting
TenneT has applied cash flow hedge accounting on interest rate derivatives used as pre-hedges for the EMTN programme. TenneT applied cash flow hedge accounting for these swaps. Changes in fair value of the swaps forming part of an effective hedge have been recognised in the statement of comprehensive income (hedge reserve). The interest rate swaps have been sold at the moment the EMTN was contracted in 2010 and 2011 (as at 31 December 2012 no interest rates swaps were in place). The hedge reserve in other reserves will be amortised over the original life of the swaps.

Inventories

Inventories are stated at the lower of cost and net realisable value. The cost is determined using the weighted average cost method, taking into account the first-in, first-out (FIFO) method. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

On an incidental basis, TenneT undertakes projects on behalf of third parties. Such projects are valued at construction cost, i.e. the direct costs of material and labour, plus an allowance for indirect costs, directly attributable subcontracting costs, other external costs and interest incurred during the construction phase. These assets are recognised under work in progress and revenue is recognised after completion of the project.

Cash & cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less. Securities are deposits on collaterals that serve as financial security for auction and energy exchange transactions; a matching debt is recognised to the party that deposited the funds on the collateral. Securities are initially stated at fair value and consequently at amortised cost.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents (as defined above), are presented net of outstanding bank overdrafts.

Non-current assets and liabilities held for sale

Non-current assets held for sale are defined as non-current assets (other than financial instruments or property investments) immediately available for sale and highly likely to be sold within a year. Non-current assets held for sale have been stated at the lower of the asset's carrying value and fair value less costs to sell.

Financial liabilities

Financial liabilities are classified as borrowings or as financial liabilities at fair value through profit or loss. The Group determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognised initially at fair value and, in the case of borrowings, net of directly attributable transaction costs. The financial liabilities include trade and other payables, bank overdrafts, borrowings and derivative financial instruments. The subsequent measurement of financial liabilities depends on their classification, which is further set out below.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of income.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. Gains or losses on liabilities held for trading are recognised in the statement of income.

Borrowings
After initial recognition, interest bearing borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are part of the effective interest rate. The effective interest rate amortisation is included as finance costs in the income statement.

Provisions

General
Provisions are formed when the Group has a legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and when the amount can be reliably estimated. The provisions are provided at the present value of expected costs to settle the obligation using estimated cash flows. The cash flows are discounted at a current pre-tax rate that reflects the risks specific to the liability. The unwinding of the discount is expensed as incurred and recognised in the statement of income as a finance cost. The estimated future costs are reviewed annually and adjusted as appropriate. Changes in the estimated future costs or in the discount rate applied are recognised in the statement of income.

Environmental management provisions
The provision for environmental management serves to cover the costs associated with the disposal of hazardous substances of high-voltage connections and underground cables. Environmental management costs are provided at the present value of expected costs settle the obligation using estimated cash flows. The additions to the provision are recognised in the statement of income.

Decommissioning provisions
The provision for decommissioning serves to cover the costs associated with the decommissioning of abandoned high-voltage connections and underground cables. Decommissioning costs are provided at the present value of expected costs to settle the obligation using estimated cash flows and are recognised as part of the cost of the particular asset. The estimated future costs of decommissioning are reviewed annually and adjusted as appropriate. Changes in the estimated future costs or in the discount rate applied for existing obligations are added to or deducted from the cost of the asset. Estimated future costs for decommissioning obligations arsing after the related asset is brought into use are recognised in the statement of income.

Long-service bonus provisions
Provisions have been created to cover the cost of special personnel benefit schemes with liabilities that existed prior to the balance sheet date. The schemes in question are redundancy schemes, long-service bonus schemes and health insurance premium schemes. The amounts set aside to cover health insurance premium schemes and bonus schemes have been calculated in accordance with actuarial principles.

Pension provisions
TenneT operates a number of pension and pension-related schemes for the benefit of current and former personnel. The pensions of the majority of the German personnel are accounted for as a defined benefit plan whereas the pensions of the majority of the Dutch personnel are accounted for as a defined contribution plan. In the Netherlands the pensions are administered by the ABP Pension Fund, which is a multi-employer scheme. ABP has indicated that it is unable to provide company-specific information of the kind required by IAS 19 for defined-benefit pension schemes; therefore this scheme is treated as if it were a defined contribution scheme.

For defined benefit plans, pension costs are determined using the projected-unit-credit method. Actuarial gains and losses are recognised in other comprehensive income in the period in which they occur. Prepaid pension costs relating to defined benefit plans are capitalised only if they lead to refunds to the employer or to reductions in future contributions to the plan by the employer. Prepaid pension costs that do not meet this recoverability criterion are charged to other comprehensive income in the period in which they occur and are recognised as effects of the asset ceiling. Payments to defined contribution plans are charged as an expense as they fall due.

3.2. Effect of new accounting standards

The following new standards, amendments and interpretations are issued and adopted for the financial year 2012:

- IAS 12 'Income taxes'
- IFRS 7 'Financial Instruments'.

IAS 12 'Income taxes'
The amendment clarified the determination of deferred tax on investment property measured at fair value and introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. It includes the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 should always be measured on a sale basis. TenneT does not hold any investment property and does not apply the revaluation model in IAS 16; therefore this amendment has no impact on the financial position, performance or disclosures.

IFRS 7 'Financial Instruments'
The amendment requires additional disclosure about financial assets that have been transferred but not derecognised. In addition, the amendment requires disclosures about the entity's continuing involvement in derecognised assets. TenneT does not have any assets with these characteristics; consequently there is no impact on the presentation of its financial statements.

3.3. Changes in accounting policies

Regulated activities
TSOs are regulated in almost all European countries. Tariffs are generally based on allowed revenue caps set by local regulators in advance. As differences between predicted and actual volumes may occur, actual cash collected may be higher or lower than the relevant revenue cap. Both in the Netherlands and Germany it is practice that such differences are compensated via adjustments of revenue caps in future periods.

In the absence of an IFRS standard that specifically applies to regulated revenues, TenneT's management has used its judgement in applying accounting policies for the Dutch and German regulated businesses. A key difference between the regulatory systems in the Netherlands and Germany is that in the Netherlands total revenue is regulated whereas in Germany tariffs themselves are regulated. As a consequence, the accounting method for regulated revenues in the Netherlands was different from the method in Germany. For the Dutch regulated activities TenneT recognised assets or liabilities for any differences between predicted and actual revenues; for the German regulated activities no assets or liabilities were recognised due to the different regulatory environment.

Over the past years there have been extensive discussions on the accounting treatment of regulated revenues and any related assets and liabilities under IFRS. In 2009 the IASB issued an exposure draft on the issue. However, any final decision has not been reached. In 2011, TenneT requested the International Accounting Standard Board (IASB) to clarify the accounting treatment of regulated revenues under IFRS. Meanwhile in 2012 the Interpretations Committee has indicated that accounting of regulated revenues is not merely an interpretation question, but needs the attention of the IASB. Consequently, further guidance in this respect may emerge over the next years.

In these changing circumstances, TenneT's management has decided to reconsider the judgements involved in determining the accounting treatment of the regulated revenues. A review of European peer TSOs which apply IFRS has revealed that the majority of these TSOs do not recognise assets and liabilities relating to regulated revenues in their statements of financial position.
As a result TenneT has decided to change its accounting policy and to bring it in line with the current industry practice of other TSOs, applying IFRS. This means that assets and liabilities relating to regulated revenues are no longer recognised and the actual revenues received are recognised in the statement of income.

As a result of this change in accounting policy, certain restatements and reclassification adjustments in the previously issued financial statements have been identified. The effect of these changes is set out in the tables below. Originally reported figures have been reclassified to conform with current year's presentation.

In addition to provide more relevant information enabling proper judgment of business performance of TenneT, TenneT remains to also report on underlying financial information which differs from the information reported in accordance with IFRS.
This underlying financial information is based on the principle to recognise regulatory assets and liabilities for all of TenneT's regulated activities and is disclosed in note 5 'segment reporting'.

Investment contributions by customers

In accordance with the changed accounting policies, fees from certain third parties for construction of a new substation, a grid connection or increased capacity for its connection are measured at fair value and recognised as deferred income ('investment contribution') and recognised as revenue over the related asset's useful life. In the originally reported financial statements the fees were deducted from the related asset's cost price. This change of accounting policy resulted in a EUR 62 million reclassification from tangible fixed assets to deferred income in the statement of financial position as at 1 January 2011 (31 December 2011: EUR 103 million) and a EUR 1 million reclassification from operating expenses to revenue in the 2011 statement of income. The effect on both equity as well as profit is nil. The originally reported figures have been reclassified to conform to this new (current year's) presentation.

Condensed statement of financial position as at 1 January 2011 (in EUR million)

	Note	As originally reported*	Change in accounting policy	Revised balance
Non-current assets		**4,371**	**-**	**4,371**
Current assets				
Account- and other receivables	D	1,707	-11	1,696
All other current assets		999	-	999
		2,706	**-11**	**2,695**
Total assets		**7,077**	**-11**	**7,066**
Equity		**1,301**	**517**	**1,818**
Non-current liabilities				
Deferred income	A	760	-636	124
Deferred tax liability	C	213	170	383
All other non-current liabilities		1,698	-	1,698
		2,671	**-466**	**2,205**
Current liabilities				
Deferred income	A	12	-12	-
Other liabilities	B	151	-50	101
All other current liabilities		2,942	-	2,942
		3,105	**-62**	**3,043**
Total equity and liabilities		**7,077**	**-11**	**7,066**

* Originally reported figures have been reclassified to conform with current year's presentation.

Condensed statement of financial position as at 31 December 2011 (in EUR million)				
	Note	**As originally reported***	**Change in accounting policy**	**Revised balance**
Non-current assets		**5,356**	**-**	**5,356**
Current assets				
Account- and other receivables	D	1,585	-15	1,570
All other current assets		1,676	-	1,676
		3,261	**-15**	**3,246**
Total assets		**8,617**	**-15**	**8,602**
Equity		**2,049**	**548**	**2,597**
Non-current liabilities				
Deferred income	A	861	-689	172
Deferred tax liability	C	219	177	396
All other non-current liabilities		2,732	-	2,732
		3,812	**-512**	**3,300**
Current liabilities				
Deferred income	A	15	-11	4
Other liabilities	B	335	-40	295
All other current liabilities		2,406	-	2,406
		2,756	**-51**	**2,705**
Total equity and liabilities		**8,617**	**-15**	**8,602**

* Originally reported figures have been reclassified to conform with current year's presentation.

Condensed statement of financial position as at 31 December 2011 (in EUR million)				
	Note	**As originally reported***	**Change in accounting policy**	**Revised balance**
Revenue	A, B	**1,542**	**25**	**1,567**
Operating expenses		1,185	-	1,185
Operating profit		**357**	**25**	**382**
Finance result	E	-72	12	-60
Profit before income tax		**285**	**37**	**322**
Income tax expense	C	85	6	91
Profit for the year		**200**	**31**	**231**
Basic and diluted earnings per share (in EUR per share)		992	153	1,145

A. Deferred income

The financial statements up till and including 2011 contained the liabilities 'auction receipts' and 'investor contributions' which result from auctions of transmission capacity on cross-border connections.

In accordance with the changed accounting method auction receipts are recognised as revenue. Consequently, auction receipts balances and related investor contribution balances are no longer recognised.

B. Other Liabilities

The financial statements up till and including 2011 contained a liability 'to be settled in tariffs', which reflected the discrepancy between the actual tariff revenue and the permitted revenue for the respective year. In accordance with the changed accounting method actual amounts received are recognised as revenue and no asset or liability is recorded for the difference. Consequently, the related balances in the statement of financial position have been released.

C. Income tax

The changed accounting method differs from the applicable tax principles, which follow the former accounting policy for these respective items. As a result, the changed method results in a temporary tax difference for which deferred taxes are recognised. Furthermore, the effect in the statement of income also affects the income tax expense for the year.

D. Account- and other receivables

The financial statements up till and including 2011 contained an asset relating to the 'to be settled in tariffs' account described under note B above. In accordance with the changed accounting method actual amounts received are recognised as revenue and no asset or liability is recorded for the difference. Consequently, the related balances in the statement of financial position have been released.

E. Finance result

The liabilities in the financial statements up till and including 2011 beared finance charges. Since these liabilities are no longer recognised, the related finance charges are also no longer recognised.

3.4. Standards issued but not yet effective

The following new standards, amendments and interpretations are issued but not effective or endorsed by the European Union for the financial year beginning 1 January 2012 and are not early adopted:

- IAS 1 'Presentation of financial statements'
- IAS 19 'Employee benefits'
- IFRS 7 'Financial instruments: Disclosures'
- IFRS 9 'Financial instruments'
- IFRS 10, 'Consolidated financial statements'
- IFRS 11 'Joint arrangements'
- IFRS 12 'Disclosures of interests in other entities'
- IFRS 13 'Fair value measurement'
- IAS 27 'Separate financial statements'
- IAS 28 'Associates and joint ventures'
- Annual improvements May 2012.

The amendments to IAS 1 change the grouping of items presented in other comprehensive income. Items that could be reclassified to profit or loss at a future point in time (for example, actuarial gains and losses on defined benefit plans and revaluation of land and buildings) would be presented separately from items that will never be reclassified (for example, net gain on hedge of net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets). The amendment affects presentation only and has no impact on the TenneT's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012, and will therefore be applied in the Group's first annual report after becoming effective.

The amendments to IAS19 are effective for annual periods beginning on or after 1 January 2013 and will therefore be applied in the Group's first annual report after becoming effective. The main amendment eliminated the corridor approach, which will not impact TenneT since it never applied the corridor approach.

The amendments to IFRS 7 require an entity to disclose information about rights to set-off and related arrangements. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 'Financial Instruments: Presentation'. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. These amendments will not impact the TenneT's financial position or performance and become effective for annual periods beginning on or after 1 January 2013.

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured at fair value and those measured at amortised cost. The determination is made at initial recognition.
The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the profit-and-loss account, unless this creates an accounting mismatch. The Group is yet to assess IFRS 9's full impact and intends to adopt IFRS 9 no later than the accounting period beginning on or after 1 January 2015. On the asset side there can be some impact on the available-for-sale financial assets, but it is expected that this impact will be limited. Liabilities are not recorded at fair value, so there is no impact expected on these liabilities.

IFRS 10, 'Consolidated financial statements' replaces parts of IAS 27 and SIC 12 and builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The Group is yet to assess IFRS 10's full impact and intends to adopt IFRS 10 no later than the accounting period beginning on or after 1 January 2014. Although TenneT still has to assess the full impact, IFRS 10 may have an impact on the accounting of special purpose vehicles that TenneT operates and the consolidation of the Foundation for the Management of Allocated Funds from the National High-Voltage Grid.

IFRS 11, 'Joint arrangements' replaces IAS 31 and SIC 13 and is applicable as from 1 January 2014. IFRS 11 distinguishes joint operations and joint ventures. Proportionate consolidation of joint ventures is no longer allowed under IFRS 11. TenneT is investigating the impact of this Standard. Currently TenneT applies proportionate consolidation for Reddyn B.V., Relined B.V., New Values B.V. and BritNed Development Ltd.

IFRS 12, 'Disclosures of interests in other entities' includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The Group is yet to assess IFRS 12's full impact and intends to adopt IFRS 12 no later than the accounting period beginning on or after 1 January 2014. Although TenneT still has to assess the full impact, IFRS 12 may have an impact on the disclosures with respect to special purpose vehicles that TenneT operates and the Foundation for the Management of Allocated Funds from the National High-Voltage Grid.

IFRS 13, 'Fair value measurement', aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or US GAAP. The Group is yet to assess IFRS13's full impact and intends to adopt IFRS 13 no later than the accounting period beginning on or after 1 January 2013.

IAS 27 'Separate financial statements' (revised 2011) is amended upon the release of IFRS 10 and comprises the requirements that remained in IAS 27 for the stand alone financial statements. The effective date is 1 January 2014.

IAS 28 'Associates and joint ventures' (revised 2011) comprises, in line with IFRS 11, the requirement that joint ventures have to be accounted for at net asset value. The effective date is 1 January 2014.

The annual improvements May 2012 are effective for annual periods beginning on or after 1 January 2013 and will not have an impact on TenneT's financial position or performance. The improvements include the following standards:

- IFRS 1 'First-time Adoption of International Financial Reporting Standards'
- IFRS 7 'Financial instruments: Disclosures'
- IAS 1 'Presentation of Financial Statements'
- IAS 16 'Property Plant and Equipment'
- IAS 32 'Financial Instruments, Presentation'
- IAS 34 'Interim Financial Reporting'.

4. Financial risks management

TenneT's policy is aimed at effective cash flow management and safeguarding Group equity against financial risks.

4.1. Risks associated with clearing transactions

Credit risk arising from energy transactions
The management of energy exchanges, the auctioning of cross-border interconnection capacity (activity transferred in 2009 to CASC.EU (Capacity Allocation Service Company. eu S.A.), the execution of the renewable energy act (Erneuerbare-Energien-Gesetz) and the maintenance of the energy balance between supply and demand all require TenneT to handle large cash flows. The company's policy is aimed at minimising the risks associated with the clearing transactions of these cash flows.

APX-ENDEX Holding B.V. (hereafter 'APX-ENDEX') acts as counterparty in the contracts that are established on each of the exchanges it services with the exclusion of APX-ENDEX Derivatives activities, which has outsourced clearing activities to ECC A.G. As a result of the outsourcing of clearing activities, APX-ENDEX Derivatives does not face credit risk on the established contracts.
As central counterparty, APX-ENDEX does not assume a net position in the energy markets, since it always assumes an equal buying and selling position. In relation to the financial settlement, APX-ENDEX faces the risk that the buyer does not pay but it will still have to pay the seller. APX-ENDEX mitigates this risk by operating a margining framework and holding collateral from members, whereby APX-ENDEX requires members to post margin (in the form of cash collateral or a bank guarantee) to cover these financial risks. The margin is effectively an estimate of the financial risk. This means that in the event of a default by the member, the financial risk to APX-ENDEX should be covered by the margin.

The top five debtors of APX-ENDEX make up 38% of the total position per year-end 2012 (year-end 2011: 42%), indicating a concentration of credit risk.

Maintenance of balance between supply and demand of energy
TenneT TSO B.V. and TenneT TSO GmbH are responsible for maintaining the balance between supply and demand of energy. The associated costs are covered by income from parties with programme responsibility, which are billed for any imbalances attributable to them. Any surplus is deducted from the tariffs for system services.
For certain situations, securities in the form of bank guarantees and collaterals are held as protection against default by the parties with programme responsibility.

4.2. Treasury risk

It is TenneT's policy to minimise the treasury risks that are inherent to its operations. The main treasury risks recognised by TenneT are market risks, credit risks, liquidity risks and refinancing risks.

The Treasury Department is responsible for managing the TenneT Group's financial risks. This does not apply to APX-ENDEX, which conducts its own risk management.

Funds that may only be released with the approval of the Netherlands Competition Authority, the Office of Energy Regulation and market parties are kept legally separate from funds resulting from operational activities. The former funds, which are not at free disposal, are managed by the Foundation for the Management of Allocated Funds from the National High-Voltage Grid.

TenneT's Treasury Regulations and the Management and Investment Regulations of the aforementioned Foundation, which have been approved by the Supervisory Board, prescribe a framework and set limitations for the activities of the Treasury Department.

Use of all ordinary course financial instruments is permitted, provided these are used solely to cover positions. Any speculative use of financial instruments is expressly not authorised.

4.2.1. Market risk

The main market risk to which TenneT is exposed is interest risk. In addition, TenneT is exposed to a commodity price risk, a very limited foreign currency risk and energy price risk.

Interest rate risk
The interest rate risk to which TenneT is exposed is defined as the risk that the interest payable on liabilities incurred exceeds the interest receivable by TenneT under the prevailing regulatory system. The Dutch Office of Energy Regulation has set the relevant interest rate at 5.45% for the 2011-2013 period. In Germany, the actual rate of interest is compensated up to a predefined maximum.

To control the Group's interest rate risk, it is TenneT's policy to ensure that the majority of its loan portfolio is based on fixed interest. TenneT uses scenarios to analyse its interest rate exposure. A theoretical increase or decrease in interest rates of 200 basis points could create an increase or decrease of EUR 16 million in the net interest costs (2011: EUR 6 million). There is limited interest risk since the majority of the portfolio is based on fixed interest rates.

Commodity price risk
APX-ENDEX acts as counterparty in the contracts that are established on each of the exchanges it services, with the exception of the exchanges that are part of APX-ENDEX Derivatives B.V., which has outsourced all clearing activities to ECC A.G. As a result of the outsourcing of clearing activities, APX-ENDEX Derivatives B.V. does not face energy price risk on the established contracts.

As central counterparty, APX-ENDEX does not assume a net position in the energy markets, since it always assumes an equal buying and selling position. In relation to the delivery of the physical position, APX-ENDEX faces the risk that the seller does not deliver. To meet the delivery towards the buyer, APX-ENDEX would need to replace the position in the market and would be exposed to a market price risk. APX-ENDEX policy is to mitigate this risk by operating a margining framework and holding collateral from members.

In addition, where APX-ENDEX faces market risk, a default fund is used to mutualise any losses in excess of collateral across the membership. For the risk that the seller does not deliver, the unknown is the market price at the point of member default. This is not known so can only be estimated based on historic data. Due to the imperfection of estimates and their vulnerability to extreme market events, there is a chance that the estimated margin is not sufficient. Therefore an additional layer of coverage is used in the form of a default fund. Members contribute to a default fund and in the event that individual member collateral is not sufficient, the default contributions of other members can be used to cover the remaining amount.

Foreign currency risk
TenneT is only exposed to limited foreign currency risk, as most of its activities take place within the Eurozone. It is TenneT's policy to cover foreign currency transaction risks as much as possible. The exchange rate risks associated with participating interests in the equity of subsidiaries are not covered. These risks are deemed to be inherent in doing business in countries outside the Eurozone.

To a very limited extent, TenneT uses foreign currency instruments. As per the end of 2012 only a commercial paper loan of USD 50 million is outstanding, which amount has been naturally hedged through a foreign currency swap in full. As a result the risk and combined sensitivity associated with these instruments are very limited.

Energy price risk
For the Dutch 2011-2013 regulatory period, the Office of Energy Regulation introduced incentive regulation for the costs related to the purchase of ancillary services (grid losses, congestion management, power reserve and black-start services). The financial risks of TenneT TSO B.V. for the purchase of ancillary services are maximised to 5% of the involved budget.

In Germany, the costs for cold reserve are recorded as a receivable and increase the revenues in later periods. In case of grid losses, control power and redispatch in each year the actual costs are compared to a planned amount that has been agreed ex ante between BNetzA and the TSOs. If the actual costs are below the planned value, the difference between planned value and actual costs is split-up into a so-called 1% death-band of the planned value and a remainder. The 1% death-band has to be refunded and decreases the revenue cap in t+2 and a bonus for the TSO which amounts to 25% of the remaining difference between actual cost and planned value, but is limited to a maximum bonus of 5% of the planned costs. The remainder has to refunded to the grid user via the grid fees. The 1% death band and the remainder are accounted for as a liability and decrease the revenues of the current period. If the actual costs are higher than those agreed upon with BNetzA, the calculation of the revenue cap works the other way around which basically means that not the whole excess amount will be reimbursed in the revenue cap of t+2, but that the TSO has to bear costs in form of a malus.

4.2.2. Credit risk

TenneT has a policy for the management of its credit risks. Credit risks arise from TenneT's transactions and positions with financial institutions. On the balance sheet date, the maximum credit risk amounted to EUR 38 million (2011: EUR 677 million). The maximum exposure decreased in 2012 due to a decrease in the cash and cash equivalents compared to 2011.

TenneT runs no credit risk on its EEG receivables. According to the EEG mechanism, each year the four German TSOs calculate the EEG surcharge for the next year. This surcharge covers all costs which are caused by the EEG. The surcharge has to be paid by the energy suppliers. If EEG receivables are not paid by the energy suppliers, the related costs are part of the next calculation of the EEG surcharge. As a result, there is no credit risk on the side of TenneT TSO GmbH regarding EEG receivables.

The credit risk on trade receivables is very limited as all credit risks are compensated in future tariffs.

Concentration limits apply when funds are placed on deposit or when financial derivatives are arranged. The counterparty must have an 'A-' credit rating or higher (2011: 'A').
On the balance sheet date, TenneT had deposited EUR 33 million with third parties (2011: EUR 710 million).

4.2.3. Liquidity risk

The liquidity risk is defined as the risk that TenneT cannot meet its short-term financial obligations. In order to minimise its exposure to liquidity risks, TenneT has credit facilities at its disposal to accommodate any fluctuations. The scope of these credit facilities is such that any adverse financial developments and events can be accommodated and continuation of day-to-day operations is ensured. The terms and conditions of these credit facilities include negative pledge and pari passu clauses. No security has been provided. The facilities all have floating-rate interest conditions.

On the balance sheet date, TenneT had a total of EUR 2,091 million (2011: EUR 2,367 million) in cash and cash equivalents and unused credit facilities at its free disposal.

The following maturity schedule presents TenneT's financial obligations at 31 December 2012 and 31 December 2011 on a non-discounted basis, using five maturity intervals.

Maturity schedule (in EUR million)						
31 December 2012	**<1M**	**1M<3M**	**3M<1Y**	**1-5Y**	**>5Y**	**Total**
Liabilities relating to assets not at free disposal						
Accounts payable in connection with energy exchange transactions	237	-	-	-	-	237
Liabilities relating to collateral securities	391	-	-	-	-	391
	628	**-**	**-**	**-**	**-**	**628**
Liabilities relating to assets at free disposal						
Borrowings	294	349	355	966	2,547	4,511
Accounts payable and other liabilities, excluding interest payable	1,793	-	-	-	-	1,793
	2,087	**349**	**355**	**966**	**2,547**	**6,304**
Total	**2,715**	**349**	**355**	**966**	**2,547**	**6,932**

Maturity schedule (in EUR million)						
31 December 2011	**<1M**	**1M<3M**	**3M<1Y**	**1-5Y**	**>5Y**	**Total**
Liabilities relating to assets not at free disposal:						
Accounts payable in connection with energy exchange transactions	290	-	-	-	-	290
Liabilities relating to collateral securities	602	-	-	-	-	602
	892	**-**	**-**	**-**	**-**	**892**
Liabilities relating to assets at free disposal:						
Borrowings	3	86	40	1,009	2,475	3,613
Accounts payable and other liabilities, excluding interest payable	1,592	-	-	-	-	1,592
	1,595	**86**	**40**	**1,009**	**2,475**	**5,205**
Total	**2,487**	**86**	**40**	**1,009**	**2,475**	**6,097**

From the maturity schedule for 2012, it can be concluded that TenneT is exposed to liquidity risk on the balance sheet date. TenneT expects to meet the obligations for the coming year with the current cash and cash equivalents and unused credit facilities. TenneT expects to meet obligations for the years thereafter through various capital market transactions.

Part of the amounts included in the maturity schedule relate to APX-ENDEX and are therefore included in the balance sheet under 'Liabilities of disposal group classified as held for sale'. For more details reference is made to note 7.11.

4.2.4. Refinancing risk

Refinancing risk is defined as the risk that funds cannot be obtained under reasonable conditions on the money or capital market when existing financing arrangements expire. The global credit crisis has focused renewed attention on this risk.
TenneT will have a significant refinancing requirement of EUR 886 million in 2013. The refinancing requirement consists redemption of long term loans (EUR 57 million), commercial papers (EUR 572 million) and short-term loans (EUR 257 million). TenneT manages its refinancing risk by spreading the tenors of new financing arrangements.

TenneT has diversified funding sources by means of its EMTN programme and CP programme. Both programmes reduces significantly the company's dependence on the banking sector. Finally, TenneT will start negotiations with capital providers about the possible extension of existing financing arrangements well before the expiry date of these arrangements. In addition, TenneT has a committed revolving credit facility of EUR 1,125 million and EUR 500 million at its disposal to refinance possible short-term debts. On 31 December 2012 these facilities were undrawn. The terms of these committed revolving credit facilities are respectively August 2017 (EUR 1,125 million) and November 2015 (EUR 500 million).

In addition to the EMTN and CP programme, TenneT has a short-term credit facility amounting to EUR 400 million, of which no amounts were drawn as at 31 December 2012.

4.2.5. Capital Risk Management and Liquidity Risk Management

Capital Risk Management
The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern while providing an adequate return for its shareholder. This means the Group aims to maintain a senior unsecured credit rating of at least A3/A-.

In order to maintain or adjust the capital structure, the Group may seek for additional capital (e.g. through a capital injection by the Shareholder and/or various capital market transactions), adjust dividends paid to its shareholder or modify its investment plans.
In December 2012 TenneT and Mitsubishi Corporation confirmed their partnership with respect to two German offshore high-voltage grid connection projects, BorWin1 and BorWin2. Mitsubishi Corporation's voting interest will be 49% with aggregate maximum equity commitment of EUR 240 million; its economic interest amounts to 69%.
Furthermore in January 2013, TenneT and Mitsubishi Corporation signed an agreement on an investment in two more offshore grid connection projects named HelWin2 and Dolwin2 in which Mitsubishi Corporation also will acquire a 49% voting interest for a maximum equity investment of EUR 336 million.

Consistent with the perspective of Standard&Poor's and Moody's, the Group monitors capital on the basis of the funds from operations to net debt ratio.

During 2012, the Group's financial strategy, which was unchanged from 2011, was to maintain funds from operations to net debt ratio of at least 0.08, based on underlying financial information. For details on underlying financial information reference is made to note 5. Segment reporting. During 2012, the Group met the funds from operations to net debt ratio.

Liquidity Risk Management
The Group's objective when managing liquidity is to be able to meet its short-term obligations at all times. The Group monitors liquidity of the Group on a rolling 12-month basis. This means that the sum of (i) cash and cash equivalents and (ii) undrawn credit facilities and (iii) 12-month net cash flow from operating activities (assuming this amount is positive) should be sufficient to meet the expected aggregate of scheduled debt repayments and investments in fixed assets over the next 12 months. This test was positive in both 2012 and 2011.

4.2.6. Financial instruments – Fair values

Set out in the table below is a comparison by class of the carrying amounts and fair value of the Group's financial instruments that are carried in the financial statements.

(in EUR million)

	Note	Carrying amount		Fair value	
		2012	2011	2012	2011
Financial assets					
Loans and receivables:					
- Account- and other receivables	7.8	2,032	1,570	2,032	1,570
- (Other) Financial assets	7.6, 7.9	49	43	49	43
- Financial assets part of disposal group classified as held for sale	7.11	628	856	628	856
Available-for –sale financial assets	7.5	1	1	1	1
Cash and cash equivalents	7.10	96	710	96	710
Total		**2,806**	**3,180**	**2,806**	**3,180**
Financial liabilities					
Borrowings:					
- Borrowings	7.13	3,557	2,597	3,921	2,745
- Account- and other payables	7.17	1,519	1,356	1,519	1,356
- Other financial liabilities	7.18	30	36	30	36
- Financial liabilities part of disposal group classified as held for sale	7.11	628	856	628	856
Financial liabilities at fair value through profit or loss		1	-	1	-
Total		**5,735**	**4,845**	**6,099**	**4,993**

Fair value hierarchy

As at 31 December 2012 TenneT holds two financial instruments valued at fair value: available-for-sale financial assets and a USD-EUR foreign exchange swap. TenneT uses the following hierarchy for determining the fair value' of these financial instruments by valuation technique:

Level 1: Measurement based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: Measurement based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices)

Level 3: Measurement based on inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The fair value of the available-for-sale financial assets amounts EUR 1 million (2011: EUR 1 million) and are classified as level 3. The USD-EUR foreign-exchange swap, included in 'Other liabilities', classifies as level 2 and amounts to EUR -1 million (2011: not present). A change in the assumptions used for calculation the fair values will not result in significant different outcome.

5. Segment reporting

For management purposes TenneT management considers the performance of its activities in the Netherlands and in Germany. The operating results of these segments are monitored separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on earnings before interest and tax ('EBIT'). Financing activities (including finance income and expense) and income taxes are managed on a Group basis and are not allocated to operating segments. Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

The accounting principles used for these segments differ from those applied in the consolidated financial statements. The differences are set out in section 3.1 and mainly relate to fact that in the underlying financial information relevant regulatory revenues and expenses are matched with each other during a corresponding reporting period.

TenneT's Management Board believes that the presentation of underlying financial information leads to a sound, consistent and transparent financial insight into current and future business developments.

2012 (x EUR million)	TSO Netherlands	TSO Germany	Total Segments	Adjustments and eliminations	Consolidated Underlying Information
Assets	**4,155**	**6,570**	**10,725**	**-383**	**10,342**
Liabilities	2,900	3,850	6,750	1,371	8,121
Equity	1,255	2,720	3,975	-1,754	2,221
Equity and liabilities	**4,155**	**6,570**	**10,725**	**-383**	**10,342**
Revenue	626	1,106	1,732	57	1,789
Depreciation and amortisation	132	103	235	10	245
Other costs	376	770	1,146	36	1,182
EBIT	**118**	**233**	**351**	**11**	**362**

2011 (x EUR million)	TSO Netherlands	TSO Germany	Total Segments	Adjustments and eliminations	Consolidated Underlying Information
Assets	**3,803**	**4,790**	**8,593**	**215**	**8,808**
Liabilities	2,549	2,685	5,234	1,599	6,833
Equity	1,254	2,105	3,359	-1,384	1,975
Equity and liabilities	**3,803**	**4,790**	**8,593**	**215**	**8,808**
Revenue	672	835	1,507	38	1,545
Depreciation and amortisation	130	92	222	11	233
Other costs	334	594	928	31	959
EBIT	**208**	**149**	**357**	**-4**	**353**

Inter-segment revenues were eliminated upon consolidation and reflected in the 'adjustments and eliminations' column. All other adjustments and eliminations are part of detailed reconciliations presented hereafter.

The reconciliation of underlying segment EBIT to IFRS Group profit for the year is as follows:

(in EUR million)	2012	2011
Underlying segment EBIT for the year	**351**	**357**
EBIT from other non TSO subsidiaries	20	9
Elimination of intercompany transactions	-9	-12
Adjustments to underlying financial information	-25	28
IFRS Group operating profit	**337**	**382**
Finance result	-100	-60
Income tax expense	-57	-91
IFRS Group profit for the year	**180**	**231**

The adjustments to underlying financial information are detailed as follows:

(in EUR million)	2012	2011
Revenue attributable to previous periods	-19	-64
Revenue attributable to future periods	-123	86
Costs attributable to previous periods	23	23
Costs attributable to future periods	94	-17
Total adjustments to underlying financial information	**-25**	**28**

The reconciliation of underlying segment assets to the IFRS Group assets is as follows:

(in EUR million)	2012	2011
Underlying segment assets as at 31 December	**10,725**	**8,593**
Investments in associates	6	8
Deferred tax assets	-24	-49
Income tax receivable	34	-
Receivable from the shareholder	-	300
Cash and cash equivalents	55	666
Assets classified as held for sale	677	920
Elimination and adjustments of intercompany balances	-1,504	-1,968
Regulatory assets in underlying financial information	-287	-208
Other	373	340
IFRS Group assets as at 31 December	**10,055**	**8,602**

The reconciliation of segment liabilities to the Group liabilities is as follows:

(in EUR million)	2012	2011
Underlying segment liabilities as at 31 December	**6,750**	**5,234**
Borrowings	3,557	2,597
Deferred tax liability	-22	-56
Income tax payable	-	49
Interest payable	83	82
Liabilities classified as held for sale	634	881
Elimination and adjustments of intercompany balances	-2,958	-1,978
Regulatory liabilities in underlying financial information	-919	-828
Other	78	24
IFRS Group liabilities as at 31 December	**7,203**	**6,005**

6. Items of the consolidated statements of income

6.1. Revenue

Revenue can be broken down as follows:

(in EUR million)	2012	2011
Connection and transmission services	850	981
System services	182	164
Operation of energy exchanges	190	198
Maintenance of energy balance	168	111
Offshore services	131	82
Other	126	31
Total	**1,647**	**1,567**

Connection, transmission and system services
The revenue from connection, transmission and system services is to a large extent regulated by the Office of Energy Regulation in the Netherlands and by the BNetzA in Germany. The revenue from connection and transmission services includes the revenue from services provided to regional grid operators and industrial clients (resolution of transmission restrictions and reactive power management). In 2012 these revenues include a debit with respect to the recognition of the provision for system services fees (see note 7.15).

Revenue includes an assessment of unbilled connection and transmission services supplied to customers between the date of the last meter reading and the year end. This assessment is based on historical consumption and weather patterns.

Operation of energy exchanges
This amount includes auction revenues consisting of auctioning cross-border interconnection capacity.
Besides, this amount includes transaction, clearing & settlement, membership and entrance fees and service income from APX-ENDEX.

Maintenance of energy balance
In general, the revenue from maintenance of the energy balance between supply and demand is equal to the cost of purchasing the associated energy and capacity. As per 1 December 2012 the related law in Germany changed and as result there is no longer a perfect pass-through from expenses from maintenance of the energy balance between supply and demand. The surplus must be reimbursed in future grid tariffs.

Offshore services
In accordance with German law TenneT recharges 70% of the offshore related costs to the other German TSOs. The revenue arising from this recharge is classified as ‘offshore services’.

Other

Large items included in the other revenues are revenues from operating the BritNed cable (EUR 18 million), KWK-G revenues (EUR 16 million), investment contributions (EUR 9 million), projects on behalf of third parties (EUR 10 million), telecom activities (EUR 13 million), services in building connection lines for offshore wind farms in Germany (EUR 21 million) and the EEG bonus (EUR 3 million).

6.2. Operating expenses

6.2.1. Energy and capacity expenses

Expenditure on the purchase of energy and capacity can be broken down as follows:

(in EUR million)	**2012**	**2011**
System services	413	310
Connection and transmission services	194	167
Maintenance of energy balance	146	108
Other	3	-1
Total	**756**	**584**

System services

The expenditure associated with system services involves the purchase of regulating and reserve capacity, black-start facilities and emergency capacity. In the German situation, system and transmission expenses include the costs for steering the grid. There are also revenues from system services, but these revenues arise from selling purchased system services to other TSOs. The net expenses from system services have to be earned over the grid tariffs.

Connection and transmission services

The expenditure associated with the provision of connection and transmission services relates to purchases for grid losses, transmission restrictions and reactive power.

Maintenance of energy balance

Costs incurred for energy and power match the revenue from maintenance of the energy balance.

6.2.2. Transmission grid and system expenses

The expenditure associated with transmission grids and systems is made up of operating costs for the transmission grids, plus the cost of maintaining systems used for the primary operating processes. The breakdown is as follows:

(in EUR million)	**2012**	**2011**
Costs of maintaining and operating transmission grids	137	117
Systems for primary operating processes	7	7
Other	-	10
Total	**144**	**134**

6.2.3. Personnel expenses

The personnel expenses can be broken down as follows:

(in EUR million)	2012	2011
Salaries	160	146
Social security contributions	19	17
Pension charges defined benefit plans	7	6
Pension charges other plans	4	4
Other personnel expenses	14	10
Capitalised costs for tangible fixed assets	-55	-54
Total	**149**	**129**

In 2012, the average workforce amounted to 2,212 FTEs (2011: 2,076 FTEs), of whom to 1,190 FTEs were employed in the Netherlands (2011: 1,174 FTEs).

Remuneration of members of the Management Board and Supervisory Board
The remuneration paid to members of the Management Board of the company is summarised below.

In thousands of EUR	Fixed remuneration	Variable remuneration	Pension contributions	Total
2012	1,063	427	406	**1,896**
2011	886	336	361	**1,583**

Remuneration paid to members of the Management Board in respect of supervisory directorships in affiliated entities accrues to the company.

The remuneration of the Supervisory Board was as follows in the year under review:

In thousands of EUR	Fixed remuneration	Committee fee	Total
2012	106	42	**148**
2011	104	43	**147**

Reference is made to the Remuneration Report for the details per individual and for the Remuneration policies.

6.2.4. Other losses/(gains) – net

The other losses/gains can be broken down as follows:

(in EUR million)	**2012**	**2011**
Sale of transformers and pylons	-	-11
Sale of telecom pylons	-8	-
Other gains and losses	-4	-
	-12	**-11**

6.2.5. Other operating expenses

Other operating expenses can be broken down as follows:

(in EUR million)	**2012**	**2011**
Accommodation and office expenses	53	52
Consultancy expenses	19	15
Hiring of temporary personnel	19	17
Travel and subsistence expenses	13	13
Other operating expenses	48	34
	152	**131**

Independent auditor's fees are classified under 'Other operating expenses'. This concerns the fees charged by PricewaterhouseCoopers Accountants N.V. and other PricewaterhouseCoopers network firms:

(in EUR million)	**2012**	**2011**
Audit of year-end and review of interim financial statements	1,612	1,479
Regulatory audits, IT-audits and other assurance services	1,241	1,457
Tax consultancy	229	320
Other services	140	62
	3,222	**3,318**

6.3. Finance income and expenses

Finance income

The finance income EUR 15 million (2011: EUR 13 million) relates mainly to interest income from local banks.

Finance expenses

The finance expenses can be broken down as follows:

(in EUR million)	**2012**	**2011**
Interest on borrowings and credit facilities	110	100
Interest on assets under construction	-13	-45
Other interest expenses	12	10
Interest on provisions	6	8
Finance expenses	**115**	**73**

In 2012 the German regulation changed the timing of interest compensation for assets under construction. In the changed regulation, the compensation is received upon inception of the investment and as a result the capitalised borrowing costs decreased. For the effective rate of interest on assets under construction and interest on long-term loans, reference is made to note 7.1 respectively 7.13.

7. Items of the consolidated statement of financial position

7.1. Tangible fixed assets

(in EUR million)	High-voltage substations	High-voltage connections	Other assets	Assets under construction	Total
Cost					
At 1 January 2011	1,729	1,481	961	1,096	5,267
Additions	28	32	8	1,202	1,270
Transfers	512	791	-627	-676	-
Transfer to intangible assets	-	-	-	-38	-38
Transfer to held for sale	-13	-	-4	-	-17
Disposals	-53	-8	-14	-	-75
At 31 December 2011	**2,203**	**2,296**	**324**	**1,584**	**6,407**
Additions	96	31	29	1,776	1,932
Transfers	192	100	-28	-264	-
Transfers to intangible assets	-	-	-	-16	-16
Disposals	-16	-5	-21	-	-42
At 31 December 2012	**2,475**	**2,422**	**304**	**3,080**	**8,281**
Depreciation and impairment					
At 1 January 2011	526	424	128	5	1,083
Depreciation for the year	84	90	20	-	194
Impairment reversal	-	-2	-	-	-2
Transfers	15	35	-45	-5	-
Transfer to held for sale	-8	-	-2	-	-10
Disposals	-39	-7	-6	-	-52
At 31 December 2011	**578**	**540**	**95**	**-**	**1,213**
Depreciation for the year	101	98	9	-	208
Impairment	-	-	9	-	9
Impairment reversal	-50	-70	-	-	-120
Disposals	-14	-4	-19	-	-37
At 31 December 2012	**615**	**564**	**94**	**-**	**1,273**
Net Book value					
At 1 January 2011	1,203	1,057	833	1,091	4,184
At 31 December 2011	1,625	1,756	229	1,584	5,194
At 31 December 2012	1,860	1,858	210	3,080	7,008

High-voltage substations include transformers. High-voltage connections consist of overhead and underground connections, insofar as they are owned by TenneT. TenneT does not own the land around its high-voltage pylons and cables. The other tangible fixed assets consist of office buildings, office ICT equipment and other company assets.

Capitalised borrowing costs

The amount of borrowing costs capitalised during the year ended 31 December 2012 was EUR 13 million (2011: EUR 45 million). The effective interest rate used to determine the amount of borrowing costs eligible for capitalisation was 3.7% (2011: 4.3%).

Contractual commitments

Reference is made to note 8.1.

Impairment

On the basis of an impairment indication, the company engaged an independent valuer to assess the recoverable amount of its headquarter building, which resulted in an impairment of EUR 5 million. Other impairments relate to telecom assets.

Impairment reversal

At each balance sheet date the company assesses whether there is an indication that an impairment loss may no longer exist or may have decreased. Up till and including 2011 the company recorded an accumulated impairment loss amounting to EUR 134 million on tangible fixed assets recognised in the statement of financial position at 31 December 2012.

When determining these impairment losses the company did not anticipate revenues from auction receipts due to uncertainty as to the amounts involved and the extend to which future revenues could be attributed to the assets subject to the impairment review. In 2012 this assumption has been revised and as such the revenues from auction receipts are now included as income for impairment testing purposes. Therefore an indication exists that the economic performance of the assets may be better than expected before. This indication has been confirmed by the impairment test prepared as at 31 December 2012. As a result the accumulated impairment losses up till 2011 are reversed to its full extent.

After taking into account additional depreciation expenses to be recognised if no impairment had originally been recorded, the reversal amounts to EUR 120 million.

7.2. Intangible assets

The carrying value of the intangible assets can be specified as follows:

	Goodwill	Software	Telecom contracts	Other intangible assets	Intangible assets under construction	Total
Cost						
At 1 January 2011	49	47	64	48	-	208
Additions	-	7	-	-	4	11
Transfer from tangible fixed assets	-	38	-	-	-	38
Transfer to held for sale	-19	-9	-	-23	-1	-52
Disposals	-5	-2	-	-8	-	-15
At 31 December 2011	**25**	**81**	**64**	**17**	**3**	**190**
Additions	1	3	-	-	-	4
Transfer from tangible fixed assets	-	-	-	-	16	16
Transfers	-	18	-	-	-18	-
At 31 December 2012	**26**	**102**	**64**	**17**	**1**	**210**
Amortisation and impairment						
At 1 January 2011	-	40	8	9	-	57
Amortisation for the year	-	19	5	2	-	26
Transfers to held for sale	-	-7	-	-5	-	-12
Disposal	-	-2	-	-1	-	-3
At 31 December 2011	**-**	**50**	**13**	**5**	**-**	**68**
Amortisation for the year	-	19	5	-	-	24
At 31 December 2012	**-**	**69**	**18**	**5**	**-**	**92**
Net Book value						
At 1 January 2011	49	7	56	39	-	**151**
At 31 December 2011	25	31	51	12	3	**122**
At 31 December 2012	26	33	46	12	1	**118**

Goodwill regarding APX-ENDEX EUR 19 million (2011: EUR 19 million) has been included under non-current assets of disposal group classified as held for sale.

Impairment testing of goodwill

The goodwill has been allocated to CGUs, which are also operating and reportable segments for impairment testing, as follows:

(in EUR million)	2012	2011
TSO Netherlands	3	3
TSO Germany	20	20
Other	3	2
Total goodwill	**26**	**25**

TSO Germany

The recoverable amount of the TSO Germany CGU has been determined based on a value in use calculation using cash flow projections from the business plan. The pre-tax discount rate applied to cash flow projections is 6.6% (2011: 7.0%) and cash flows beyond the five-year period have been derived from the regulatory allowed returns and the invested capital. Management believes that these cash flows can be determined reliably and give an appropriate reflection of the CGUs cash flow generating potential. It was concluded that the recoverable amount was in limited excess of the carrying value. As a result of this analysis, management concluded that no impairment loss was to be recognised.

The calculation of value in use is most sensitive to the following assumptions:

Regulatory allowed revenue – The German regulatory regime for Transmission System Operators determines the basis for the allowed revenue, while applying the regulatory allowed leverage of 40% equity and 60% debt. In addition, certain operating costs are refunded.

Discount rate – The applied discount rate is equal to the regulatory allowed return on equity and debt on the basis of the leverage of 40% equity and 60% debt.

Growth rate – The applied growth rate has been derived from the capital expenditures included in the business plan and for the period thereafter management has assumed a long-term sustainable level of investments.

The German regulatory regime defines regulatory periods of 5 years, the current regulatory period ends in 2013. The regime applicable for the period 2014-2018 is used in the projections.

To consider the sensitivity of the key assumptions, alternative scenarios were prepared and analysed. The following impact on key assumptions was considered:

- The target debt/equity leverage has a significant impact on the recoverable amount. In the calculations the equity leverage was capped at 50%. Without such a leverage cap, the recoverable amount would significantly increase. A reduction in the debt/equity leverage from 50% to 40% would result in a reduction of the recoverable amount of approximately EUR 530 million.
- Relatively small changes in the cost of equity, that is reflected in the discount rate, result in significant changes in the recoverable amount. An increase in the weighted average cost of capital (WACC) of 10 basis points would result in a reduction of the recoverable amount of approximately EUR 158 million.
- Changes in the regulatory regime, especially when the regulator introduces a regulatory return on imputed equity that is lower than the return on equity that has to be realised on a stand-alone basis for an investment with a comparable risk profile, would have a significant impact on the recoverable amount. Management expects that on the long term, the regulator follows the market rates for equity of TSOs and that such a difference is unlikely to remain for a long period.

7.3. Investments in associates

The investments in associates mainly consists of investments held in Holding des Gestionnaires de Réseaux de Transport d'Électricité S.A.S. (hereafter 'HGRT') and Open Tower Company B.V. (hereafter 'OTC').

HGRT holds a 52.8% share in Powernext S.A., a French electricity exchange. TenneT holds a 24.5% share in HGRT and consequently TenneT's indirect share in Powernext S.A. amount to 12.8%. The share in result of HGRT amounted to EUR 0 million (2011: EUR 1 million).

OTC is a holding company of a joint venture between Rabo Bouwfonds Communication Infrastructure Fund C.V. (via CIF Holding Wireless B.V.) and NOVEC B.V. TenneT's share in OTC (via NOVEC B.V.) amounts to 25%. The share in result of OTC amounted to EUR 0 million (2011: EUR -1 million).

The movement in the investments in associates is as follows:

(in EUR million)	**Total 2012**	**Total 2011**
Balance at 1 January	20	17
Capital contributions	-	4
Other direct equity movements	-1	-1
Balance at 31 December	**19**	**20**

7.4. Income Tax

The major components of income tax expense are:

Consolidated income statement (in EUR million)		
	2012	**2011**
Current income tax		
Current income tax charge	17	73
Deferred tax		
Relating to origination and reversal of temporary differences	40	18
Income tax expense reported in the income statement	**57**	**91**

The major components of income tax expense are:

Consolidated statement of comprehensive income (in EUR million)		
	2012	**2011**
Net loss on actuarial gains and losses on defined benefit plans	9	3
Net gain on cash flow hedges	-	-2
Income tax charged directly to other comprehensive income	**9**	**1**

A reconciliation between tax expense and the accounting profit multiplied by the domestic tax rate is as follows:

(in EUR million)	**2012**	**2011**
Accounting profit before income tax	**237**	**322**
At statutory income tax rate of 25% (2011: 25%)	59	81
Adjustments in respect of deferred taxes	-12	-1
Non-deductible expenses for tax purposes:		
Non-deductible interest	3	-
Non-deductible provisions	-	4
Non-taxable income for tax purposes under German tax regime ('Vororganschaftslische Mehrabführungen')	-	-2
Effect of higher tax rate in Germany	6	9
Other	1	-
At the effective income tax rate of 24% (2011: 28%)	**57**	**91**

Deferred tax relate to the following:

	Consolidated statement of financial position			Consolidated income statement	
(in EUR million)	**2012**	**2011**	**As at 1 January 2011**	**2012**	**2011**
Auction receipts	-117	-90	-80	25	11
Investment contributions	-75	-78	-82	-3	-3
Tariffs to be settled	-81	-149	-110	-65	39
Accelerated depreciation for tax purposes	-210	-129	-132	78	-3
Provisions recognised for tax purposes	48	43	24	16	-15
Financial instruments	17	7	1	-11	-7
Receivables and payables	1	1	-4	-	-2
Losses available for offsetting against future taxable income	3	2	1	-	-2
Other	-1	-1	-	-	-
Deferred tax expense/(income)				**40**	**18**
Net deferred tax assets/(liabilities)	**-415**	**-394**	**-382**		
Reflected in the statement of financial position as follows:					
Deferred tax assets	1	2	1		
Deferred tax liabilities	-416	-396	-383		
Deferred tax liabilities, net	**-415**	**-394**	**-382**		

Reconciliation of deferred tax liabilities, net (in EUR million)

	2012	**2011**
Opening balance as of 1 January	**-394**	**-382**
Tax expense during the period recognised in profit or loss	-40	-18
Tax income during the period recognised in other comprehensive income	9	1
Reclassification to current liabilities	10	-
Assets and liabilities held for sale	-	5
Closing balance as at 31 December	**-415**	**-394**

The Group offsets tax assets and liabilities only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred assets and deferred liabilities relate to income taxes levied by the same tax authority.

The Group has tax losses which mainly arose in The United Kingdom, that are available for offsetting against future profits of the company in which the losses arose. The losses can be utilised indefinitely.

Deferred tax assets have not been recognised for carry forward losses of EUR 1 million (2011: EUR 1 million), that have an expiry date of 2020.

7.5. Available-for-sale financial assets

The available-for-sale financial assets consist of investments in Capacity Allocation Service Company.eu S.A. (CASC.EU) and Central Allocation Office GmbH.

The investment in CASC.EU amounts to EUR 0.6 million (2011: EUR 0.6 million). CASC.EU is a joint enterprise for cross-border services. It was set up to implement and organise long-term (annual, monthly and daily) auctions of transmission capacity on the borders between various countries and by now also took over different pre-and post-allocation processes. Shareholders each hold an 8.33% share and comprise: TenneT TSO GmbH, Creos Luxembourg S.A., Elia System Operator S.A., TransnetBW GmbH, RTE S.A., Amprion GmbH, Austrian Power Grid AG, Swissgrid AG, Elektro-Slovenija, d.o.o., Independent Power Transmission Operator S.A., Terna Rete Elettrica Nazionale Società per Azioni and TenneT TSO B.V.

The investment in Central Allocation Office GmbH amounts to EUR 0.1 million (2011: EUR 0.1 million). Central Allocation Office GmbH was established to develop and implement coordinated congestion management solutions in the region of Central Eastern Europe region (CEE). The participants with a share of 12.5% each are TenneT TSO GmbH, Polskie Sieci Elektroenergetyczne Operator S.A., 50Hertz Transmission GmbH, ČEPS, a.s., Slovenská elektrizačná prenosová sústava, a.s., Austrian Power Grid AG, MAVIR Hungarian Independent Transmission Operator Company Ltd., Elektro-Slovenija , d.o.o., Independent Power Transmission Operator S.A.

7.6. Other financial assets

Other financial assets can be broken down as follows:

(in EUR million)	**2012**	**2011**
Receivables related parties	7	6
Fees for credit facilities available	6	6
Pension asset (note 7.15)	-	4
Other	1	1
Total	**14**	**17**

The receivable from related parties mainly consists of two loans granted to Mobile Radio Networks Vehicle B.V. (hereafter 'MRNV'). MRNV is a 100 % participation of OTC, which is a 25 % participation of NOVEC B.V. (wholly owned by TenneT).

TenneT has a EUR 1.6 billion committed revolving credit facility at its disposal, expiring August 2017. No amounts were outstanding under this facility as at 31 December 2012. The fees paid for the credit facility are capitalised and are charged against the result each year, pro rata the duration of the credit facility.

7.7. Inventories

The inventory consists of spare parts amounting to EUR 7 million (2011: EUR 8 million) and work in progress amounting to EUR 3 million (2011: EUR 2 million).

7.8. Account- and other receivables

The account- and other receivables can be broken down as follows:

(in EUR million)	**2012**	**2011**
Amounts to be invoiced EEG trade debtors	1,222	681
EEG trade receivables	126	78
Trade receivables	71	366
Amounts to be invoiced	310	29
Amounts due from shareholder	-	300
VAT receivables	243	57
Interest receivables	4	6
Other	56	53
Total	**2,032**	**1,570**

EEG trade- debtors and receivables
TenneT does not bear a credit risk on its EEG receivables. According to the EEG mechanism, each year the four German TSOs calculate the EEG surcharge for the next year. This surcharge covers all expected costs, including a 10% liquidity offer, which are caused by the EEG. The surcharge has to be paid by the energy suppliers. If EEG receivables are not paid by the energy suppliers or the EEG surcharge is too low, the related costs are part of the next calculation of the EEG surcharge. As a result, there is no credit risk on the side of TenneT TSO GmbH regarding EEG receivables.

Trade receivables
In respect of the regular trade receivables the credit risk is also limited since the majority of potential losses are expected to be compensated in the tariffs for the next periods. As at 31 December 2012, receivables of an initial value of EUR 2 million (2011: nil) were impaired and fully provided for. The movement in the provision for impairment of receivables is as follows:

(in EUR million)	
Balance at 1 January 2012	-
Charge for the year	4
Utilised	-
Unused amounts reversed	-
Balance at 31 December 2012	**4**

As at 31 December, the ageing analysis of the trade receivables is as follows:

			Past due but not impaired		
(in EUR million)	**Total**	**Neither past due nor impaired**	**0-30 days**	**31-60 days**	**>60 days**
2012	**71**	16	8	2	45
2011	**366**	343	8	2	13

Further reference is made to chapter 4 'Financial risk management' for a discussion on how the Group analyses and manages the credit risk.

Amounts to be invoiced
In 2012, the amounts to be invoiced includes a receivable relating to sec. 19 par. 2 StromNEV surcharge in Germany. In 2012 this law was applicable for the first year and as result the actual invoiced surcharge was too low resulting in an accrued receivable for TenneT. TenneT is acting as an agent with respect to these services.
Furthermore, the increased redispatch activities in Germany (maintaining the voltage levels) caused by more congested lines due to the German nuclear power plant moratorium, resulted in an increase of the amounts to be invoiced as these costs are (to a certain extent) recharged to the other German TSOs.

7.9. Current financial assets

The current financial assets can be broken down as follows:

(in EUR million)	**2012**	**2011**
Deposits	33	24
Current part other financial assets	2	2
Total	**35**	**26**

The deposits are made by the Foundation for the Management of Allocated Funds from the National High-Voltage Grid and are not at free disposal. The fair value of the deposits amounted to EUR 33 million (2011: EUR 24 million), with an average effective interest rate of 0.5% (2011: 1.2%). The fair value of these deposits has been calculated using discounted cash flow valuation techniques, on the basis of the market conditions prevailing on the balance sheet date (including interest accrued).

This current part other financial assets reflects the current part of the long term ground leases and fees for credit facilities available. For more details reference is made to note 7.6.

7.10. Cash and cash equivalents

The cash and cash equivalents consist of collateral securities, short-term bank deposits and cash at bank, excluding bank overdrafts. The cash, cash equivalents and bank overdrafts can be broken down as follows, on the basis of their nature and the associated activities:

2012 (x EUR million)

	Collateral securities	Short-term bank deposits	Cash at bank	Total 2012
Funds not at free disposal:				
- Auctioning of capacity	-	-	-	-
- Maintenance of energy balance between supply and demand	30	-	-	30
Funds at free disposal	-	-	66	66
Total at 31 December 2012	**30**	**-**	**66**	**96**

2011 (x EUR million)

	Collateral securities	Short-term bank deposits	Cash at bank	Total 2012
Funds not at free disposal:				
- Auctioning of capacity	-	-	1	1
- Maintenance of energy balance between supply and demand	36	-	5	41
Funds at free disposal	-	610	58	668
Total at 31 December 2011	**36**	**610**	**64**	**710**

Cash at banks earn interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

For the (undrawn) committed borrowing facilities reference is made to the separate note on borrowings (note 7.13).

For the purpose of the statement of cash flows, cash and cash equivalents comprise the following at 31 December:

(in EUR million)	2012	2011
Cash and cash equivalents	96	710
Cash and cash equivalents included in non-current assets and liabilities of disposal group classified as held for sale	382	579
Total	**478**	**1,289**

7.11. Assets and liabilities of disposal group classified as held for sale

The majority of the assets and liabilities classified as held for sale relate to APX-ENDEX in which TenneT currently owns 56.1% and for which TenneT at 31 December was committed to a sale plan which could lead to loss of control. APX-ENDEX business as a whole does not represent a major line of business in the context of IFRS 5, as such APX-ENDEX does not classify as discontinued operation. The assets of APX-ENDEX amount to EUR 677 million (2011: EUR 919 million) and the liabilities amount to EUR 634 million (2011: EUR 881 million). Both the assets as well as the liabilities of APX-ENDEX contain EUR 628 million of financial instruments (2011: EUR 856 million). The financial instruments comprise of accounts receivable and accounts payable in connection with energy exchanges of EUR 237 million (2011: EUR 290 million) and assets and liabilities relating to collateral securities for energy exchange activities of EUR 391 million (2011: EUR 566 million).

In addition, the assets classified as held for sale include certain transformers that the Group expects to sell within one year after the balance sheet date. The expected fair value less costs to sell is higher than the carrying value, consequently these assets are valued at their carrying value.

7.12. Equity

Paid-up and called-up capital
The company's authorised share capital amounts to EUR 500 million (2011: EUR 500 million), divided into one million shares of EUR 500 each. Of these shares, two hundred thousand shares have been issued and paid-up.

Share premium reserve
The share premium reserve relates to a EUR 600 million capital contribution granted by the Dutch state in 2011. The contribution was received in two tranches of EUR 300 million, of which the second tranche was received in 2012.

Other reserves
The other reserves are broken down as follows:

(in EUR million)	Hedging reserve	Reserve for exchange rate difference	Total
Balance at 1 January 2011	**-4**	**-2**	**-6**
Total comprehensive income	8	-	8
Balance at 31December 2011	**4**	**-2**	**2**
Total comprehensive income	1	-	1
Balance at 31 December 2012	**5**	**-2**	**3**

The hedging reserve relates to the cumulative result of the sold Forward Starting Interest Rate Swaps (hereafter 'FSIRS'), classified as cash flow hedges, that had been recorded in equity in the Statement of Comprehensive Income and will be amortised over the remaining term of the original FSIRS. The end term of the original FSIRSs is 2015, 2020 and 2021. As at 31 December 2012 an amount of EUR -3 million is included in hedging reserve for the 2015 FSIRS (2011: EUR -5 million), EUR -8 million for the 2020 FSIRS (2011: EUR -9 million) and EUR 16 million for the 2021 FSIRS (2011: EUR 18 million).

The reserve for exchange rate differences serves to cover movements in exchange rates associated with the equity of participating interests in the UK (including the associated goodwill).

The hedging reserve and the reserve for exchange rate differences are not freely distributable.

Non-controlling interest
The non-controlling interests relate to a 69% non-controlling economic interest held by a subsidiary of Mitsubishi Corporation in TenneT Offshore 2. Beteiligungsgesellschaft GmbH and to a 43.95% non-controlling interest in APX-ENDEX Holding B.V., held by N.V. Nederlandse Gasunie (20.95%), Fluxys S.A. (3%) and Elia System Operator S.A. (20%).

In December 2012 TenneT sold a 49% voting interest in TenneT Offshore 2. Beteiligungsgesellschaft GmbH to a subsidiary of Mitsubishi Corporation for an amount of EUR 80 million. As part of this sale the subsidiary of Mitsubishi Corporation obtained a 69% economic interest in the net equity of TenneT Offshore 2. Beteiligungsgesellschaft as per 1 July 2011 and its results as of this date. The total transaction on TenneT's equity attributable to the equity holders of the company amounts to EUR -24 million, which mainly relates to EUR 4 million transaction costs and the results of TenneT Offshore 2. Beteiligungsgesellschaft GmbH as of 1 July 2011 up till and including 2012. Subsequent to the sale of the non-controlling interest, the subsidiary of Mitsubishi Corporation made a capital contribution of EUR 101 million to TenneT Offshore 2. Beteiligungsgesellschaft GmbH.

TenneT's shareholding in APX-ENDEX is currently classified as held for sale (note 7.11).

Hybrid securities
These securities are classified as equity. This conclusion is based on the fact that the counterparties cannot oblige TenneT to pay interest or redeem the loan in part or in full. Payment of interest and redemption of the loan is at the sole discretion of TenneT. TenneT issued EUR 0.5 billion in hybrid securities. From (and including) 9 February 2010 until (but excluding) 1 June 2017, the securities will optionally bear interest at a rate of 6.655% p.a., payable annually in arrear on 1 June of each year, starting on 1 June 2011. The hybrid securities are deeply subordinated securities and are, apart from common equity, the most junior instruments in the capital structure of the company. The hybrid securities are undated and cannot default upon non-payment of coupons (unless such payment was mandatory following a resolution or payment of a dividend to common shareholders i.e. 'dividend pusher'). This means that TenneT can avoid payment to hybrid securities owners. The holders of the hybrid securities have limited ability to influence the outcome of a bankruptcy proceeding or a restructuring outside bankruptcy.

In the valuation of the hybrid securities, an amount of EUR 3.2 million is included with respect to transaction costs. The tax effect of these transaction costs amounting to EUR 0.8 million is also recorded directly in equity.

Dividend distribution
In 2012 TenneT distributed a EUR 60 million dividend to the shareholder relating to 2011. The dividend per share amounted to EUR 300. In relation to the dividend and in accordance with the dividend pusher, TenneT paid a distribution to the holders of the hybrid securities of EUR 33 million for 2011 in 2012. The tax effect on the 2011 dividend payment in 2012 amounts to EUR 8 million (2011: EUR 11 million).

The appropriation of the 2012 profit is at the free disposal of the General Meeting of Shareholders.

Basic and diluted earnings per share
Earnings per share has been calculated by dividing the profit for the year attributable to equity holders of the company by the weighted average number of ordinary shares in issue during the year.

	2012	2011
Profit for the year attributable to equity holders of the company (in EUR million)	177	229
Weighted average number of ordinary shares in issue (thousands)	200	200
Basic and diluted earnings per share (x EUR)	885	1,145

7.13. Borrowings

The borrowings can be broken down as follows:

	Effective Interest rate	Maturity	Redemption schedule*	2012	2011
Current interest-bearing borrowings					
Cash loans	0.49%	Apr-Oct 2013		257	-
Commercial papers	0.15%	Jan-Apr 2013		572	-
3.310% Loan 2009-2013 EUR 40 million	3.3%	Nov 2013		40	-
4.439% Loan 2010-2023 EUR 140 million	4.4%	Nov 2013		11	11
4.709% Loan 2010-2022 EUR 40 million	4.7%	Nov 2013		3	3
4.397% Loan 2010-2021 EUR 40 million	4.4%	May 2013		3	3
Total current interest-bearing borrowings				**886**	**17**
Non-current interest-bearing borrowings					
3.250% Bond 2010-2015 EUR 500 million	3.3%	Feb 2015		499	498
3.875% Bond 2011-2018 EUR 500 million	3.9%	Feb 2018		523	528
4.500% Bond 2010-2022 EUR 500 million	4.5%	Feb 2022		496	495
4.625% Bond 2011-2023 EUR 500 million	4.6%	Feb 2023		495	496
4.750% Bond 2010-2030 EUR 200 million	4.8%	Feb 2030		194	194
2.737% Loan 2012-2023 EUR 150 million	2.7%	Sep 2023		150	-
4.116% Loan 2010-2021 EUR 150 million	4.1%	Jan 2021		150	150
4.439% Loan 2010-2023 EUR 140 million	4.4%	2013-2023	Linear	108	118
4.709% Loan 2010-2022 EUR 40 million	4.7%	2013-2022	Linear	28	31
4.397% Loan 2010-2021 EUR 40 million	4.4%	2013-2021	Linear	27	30
3.310% Loan 2009-2013 EUR 40 million	3.3%	Nov 2013		-	40
Other				1	-
Total non-current interest-bearing borrowings				**2,671**	**2,580**

* In full at maturity date, unless other mentioned

As at 31 December 2011, Interest Rate Swaps, that were initially acquired for hedging purposes, were sold. The cumulative result of this transaction was included in the valuation of the bonds and is amortised over the remaining term of the original Interest Rate Swaps. The yearly amortisation in 2012 was EUR 1 million.

Transaction costs and differences between nominal and issued value are included in the valuation of the bonds. The yearly amortisation of 2012 was EUR 2 million (2011: EUR 2 million).

Credit facilities

TenneT has short-term credit facilities with a total value of EUR 400 million at its disposal. The terms and conditions of these credit facilities include negative pledge and pari passu clauses. No security has been provided. The facilities all have floating-rate interest conditions. At the balance sheet date, EUR 0 million (2011: EUR 0 million) had been drawn from these facilities.

During 2012 TenneT extended its EUR 1,125 million revolving credit facility until 2017. A new revolving credit facility of EUR 500 million was agreed during 2012 for a 3-year period, expiring in 2015. Both facilities are with an international Group of banks, whereby amounts may be drawn from the credit facilities based on the EURIBOR interest rates that correspond with the term of such drawing. At 31 December 2012, no amounts were drawn from the credit facilities.

7.14. Deferred income

The deferred income can be broken down as follows:

(in EUR million)	**2012**	**2011**
Investment contributions	173	160
Service contracts	7	8
Other	31	4
Total	**211**	**172**

The investment contributions relate to a payment from certain third parties for construction of a new substation, a grid connection or increased capacity for its connection. The payment is recognised as revenue over the related asset's useful life. The amounts in the table above reflect the non-current balance. The current part of the investment contributions amounts to EUR 4 million (2011: EUR 4 million) and is presented separately at the face of the statement of financial position.

The deferred income for service contracts relates to service contracts with Deutsche Bahn AG. The contract period is 10 years. The amount is recognised as revenue over the remaining contractual period.

Other deferred income mainly relates to a payment received from a former shareholder of TenneT Germany. The payment reflects compensation for certain expenses that will be incurred by the Group in the next 7 years. The payment is equally recognised as revenue over this period of 7 years.

7.15. Provisions

The provisions can be broken down as follows:

(in EUR million)	Total 2012		Total 2011	
	Current	Non-current	Current	Non-current
Environmental management and decommissioning	6	64	6	67
Tariffs related	269	44	54	19
Long-service bonuses	1	8	1	7
Other	2	2	2	2
	278	118	63	95
Defined benefit pensions	-	68	-	33
Total	**278**	**186**	**63**	**128**

The movement in the provisions, excluding the pension provision, is as follows:

(in EUR million)	Environmental management and decom-missioning	Tariffs related	Long-service bonuses	Other	Total
At 1 January 2011	57	79	8	4	148
Addition	17	25	1	1	44
Utilisation	-3	-18	-1	-1	-23
Unused amounts reversed	-	-15	-	-	-15
Imputed interest and discount rate adjustment	2	2	-	-	4
At 31 December 2011	**73**	**73**	**8**	**4**	**158**
Addition	1	276	1	5	283
Utilisation	-4	-25	-	-5	-34
Unused amounts reversed	-3	-12	-	-	-15
Imputed interest and discount rate adjustment	3	1	-	-	4
At 31 December 2012	**70**	**313**	**9**	**4**	**396**

Provision for environmental management and decommissioning
The provision for environmental management and decommissioning serves to cover future obligations to dispose of hazardous substances and to decommission abandoned high-voltage connections and underground cable sections. A discount rate of 4% is applied to calculate the provision.

Tariffs related
Tariffs related provisions mainly relate to system services fees, preplanning costs offshore, individual grid, payments for grid tariffs made under restriction tariffs and KWK-G (old).

- *System services fees*
  TenneT charges electricity consumers a fee for system services performed by TenneT. Resulting from a change in law, the court in the Netherlands concluded in the course of 2012 that only consumers with a direct connection to a grid maintained by a TSO are required to pay a system services fee in the period prior to July 1, 2011. As a result consumers without a direct grid connection unjustifiably paid a fee for system services to TenneT in the past years. Therefore, TenneT has announced to repay the unjustified system services fees. The exact amount to be repaid is uncertain and depends, amongst others, on the usage of the consumer in the past and the nature and legal structure of each individual consumer. The total estimated remaining obligation for this matter amounts to EUR 243 million and is included in the current part of the provision as disclosed above.

  TenneT notes that the recorded provision reflects its best estimate of the probable outflow of resources. Uncertainty about the assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the provision in future periods.

- *Preplanning Costs Offshore*
  In 2006 the German law on preplanning offshore costs changed. As a result TSOs became responsible for the construction of the offshore grid connections and are obliged to refund preplanning costs incurred by the companies who planned to build an own offshore grid connection before the law was changed in 2006.

- *Individual grid tariffs*
  The individual grid tariffs obligation reflects the potential obligation to pay grid revenues partly back to special grid users in Germany. These grid users can arrange individual grid tariffs with the BNetzA. The obligation for the Group to pay back any excess of the regular tariffs to the individual tariffs is dependent on an individual tariff approval by the BNetzA. Furthermore, the amount that may be given back is not fixed.

- *Payments for grid tariffs made under restriction*
  In 2004/2005 the predecessor of TenneT Germany increased the grid tariffs in Germany. Certain customers paid these increased tariffs under the condition that the increase is credited when the increase is not accepted by the BNetzA. The tariffs have not yet been reviewed by the BNetzA and therefore no formal approval for these increased tariffs is present which is why a provision was recorded to cover the risk of a potential reimbursement. In 2012 this provision is released.

- *KWK-G (old)*
  The provision for KWK-G (old) relates to the German KWK-G law until 2002. In accordance with this law, power plant operators must meet certain criteria, which were according to the predecessor of TenneT Germany, not fulfilled. As a result certain subsidies were not or only partially paid by the predecessor of TenneT Germany to these power plant operators. These subsidies are therefore disputed by the operators. Every case is evaluated separately by the legal departments and KWK-G experts. If a law case is won the relevant part of the provision is released, if a case is lost the provision is used to cover costs incurred.

Long-service bonus provision
The Group has future liabilities under the Collective Labour Agreement involving the payment of salary-related bonuses to long-serving and retiring employees on their retirement date. The size of the associated provision has been calculated on the basis of actuarial principles. The main assumptions made in this context concern the annual salary increase of 2.5% in the Netherlands and 2.75% in Germany, an age-dependent retention rate and a discount rate of 4.0%.

Defined benefit pensions
The Group has defined benefit plans for the majority of the German personnel, which are mainly based on collective bargaining or works council agreements. The level of benefits or contribution to be provided depends on the salary and years of service of the participants. The assets of these plans are held and administrated by the institutions Helaba Pension Trust e.V., Frankfurt (Helaba) and Versorgungskasse Energie VVaG (VKE).

The disclosure of these plans is Grouped in the notes below based on weighted averages. In 2011 the VKE plan was overfunded and as such resulted in a net pension asset. The IFRIC 14 asset ceiling test revealed that this asset can be recognized as a separate asset and is therefore presented in the other financial assets (note 7.6) in the statement of financial position. In 2012 the VKE plan is no longer overfunded and as such no pension asset is applicable as at 31 December 2012.

The components of the net benefit expense recognised in the statement of income are as follows:

(in EUR million)	2012	2011
Current service cost	6	5
Interest cost on benefit obligation	4	4
Expected return on plan assets	-3	-3
Net benefit expense	**7**	**6**
Actual return on plan assets	5	-

The funded status of the plans and the amounts recognised in the statement of financial position are as follows:

(in EUR million)	2012	2011
Defined benefit obligation	136	90
Fair value of plan assets	-68	-61
Funded status	**68**	**29**
Benefit asset included in other financial assets (note 7.6)	-	4
Benefit liability	**68**	**33**

The changes in the present value of the defined benefit obligation over the year are as follows:

(in EUR million)	2012	2011
Defined benefit obligation at 1 January	90	74
Current service cost	6	5
Interest cost	4	4
Benefits paid	-	-
Actuarial losses on obligation	36	7
Defined benefit obligation at 31 December	**136**	**90**

The changes in the fair value of plan assets over the year are as follows:

(in EUR million)	2012	2011
Fair value of plan assets at 1 January	61	55
Actual return on plan assets	5	4
Contributions by employer	2	2
Benefits paid	-	-
Fair value of plan assets at 31 December	**68**	**61**

The actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions recognised in the statement of comprehensive income are as follows:

(in EUR million)	2012	2011
Accumulated actuarial losses recognised at 1 January	15	5
Recognized losses recognised during the year	36	10
Accumulated actuarial losses recognised at 31 December	**51**	**15**

The Group expects to contribute EUR 2 million to its defined benefit pension plans in 2013.

The major categories of plan assets as a percentage of the fair value of the total plan assets are as follows:

	2012	2011
Equity instruments	20%	15%
Debt instruments	72%	72%
Property	6%	6%
Other assets	2%	7%

The principal assumptions used in determining the pension obligation were as follows:

	2012	2011
Discount rate	3.50%	4.75%
Inflation rate	2.00%	2.00%
Expected return on plan assets	4.25%	4.30%
Future salary increases	2.50%	2.50%
Future pension increases	2.00%	2.00%

Assumptions regarding future mortality experience are set based on actuarial advice in accordance with published statistics and experience. The overall expected rate of return on assets is determined based on the market expectations.

Amounts for the current and previous four periods are as follows:

(in EUR million)	2012	2011	2010	2009	2008
Defined benefit obligation	136	90	73	-	-
Fair value of plan assets	-68	-61	-55	-	-
Funded status	**68**	**29**	**18**	**-**	**-**
Experience adjustments on plan liabilities	1	2	4	-	-
Experience adjustments on plan assets	-2	7	2	-	-

7.16. Other non-current liabilities

The other noncurrent liabilities can be broken down as follows:

(in EUR million)	2012	2011
EEG liabilities	-	17
Amounts received in advance	5	7
Total	**5**	**24**

In 2011 the other noncurrent liabilities included an EEG liability relating to 2008, 2009 and 2010. This liability will be settled in 2013 and is therefore classified as current in 2012.

7.17. Account- and other payables

The trade and other payables can be broken down as follows:

(in EUR million)	2012	2011
Expenses payable in respect of transmission and system services	877	559
Accounts payable	108	61
EEG accounts payable	534	736
Total	**1,519**	**1,356**

7.18. Other financial liabilities

The other financial liabilities relate to collateral securities given by third parties to underwrite trading on energy exchanges and the auctioning of cross-border interconnection capacity.

7.19. Other current liabilities

The other current liabilities can be broken down as follows:

(in EUR million)	2012	2011
Interest payable	83	82
To be settled cross border transactions	29	26
Taxation and social security contributions	58	45
Other	187	142
Total	**357**	**295**

The majority of the other liabilities consist of accruals for invoices to be received in relation with tangible fixed asset purchases.

8. Miscellaneous

8.1. Off-balance sheet rights and obligations

Off-balance sheet rights and obligations consist of the following categories:

(in EUR million)	2012	2011
Off-balance sheet obligations		
(Long-term) financial obligations	5,972	3,122
Legal and arbitration proceedings	-	127
Obligation for operating leases	108	106
Conditional obligations	46	58
Total off-balance sheet obligations	**6,126**	**3,413**
Off-balance sheet rights		
Conditional rights	777	753
Securities & comfort letters received	1,886	655
Government guarantees received	300	300
(Long-term) financial rights	6	16
Total off-balance sheet rights	**2,969**	**1,724**

(Long-term) financial obligations

At 31 December 2012, external commitments totalling EUR 2,133 million (2011: EUR 2,970 million) had been entered into with regard to the purchase of tangible fixed assets. In total, other German grid related obligations amounted to EUR 137 million (2011: EUR 140 million).

In December 2012 TenneT Offshore 2. Beteiligungsgesellschaft GmbH issued a guarantee to the fiscal agent of the bond holders under the EMTN programme equal to its consolidated asset base of the previous fiscal year under German GAAP. This guarantee is capped at EUR 1,176 million. The consolidated asset base of the previous fiscal year under German GAAP amounted to EUR 551 million, which is included under the (Long-term) financial obligations in the table above.

TenneT TSO B.V. has entered into commercial ground lease contracts with the owners of the land on, under or over which TenneT's substations, lines and underground cables are sited or routed. TenneT's annual obligation under these contracts amounts to EUR 2 million (2011: EUR 2 million).

NOVEC B.V.'s off-balance sheet obligations consist mainly of long-term rental commitments for high-voltage pylons and land for antenna sites. The rental commitments as at 31 December 2012 amount to EUR 78 million (2011: EUR 6 million) and consist of contracts with various landlords. NOVEC B.V. expects to continue these contracts for a minimum of 20 years.

Auction receipts

TenneT sells transport capacity through auctions. In the Netherlands the received cash is restricted and must be used for financing future investments. The unused auction receipts as at 31 December 2012 amounts to EUR 552 million (2011: EUR 377 million).

TenneT TSO GmbH

On 16 December 2010, TenneT Holding B.V. signed three letters of comfort in which TenneT Holding B.V. commits itself to provide TenneT Offshore GmbH with all means necessary to meet its commitments concerning the offshore windfarm grid connection, and the deconstruction duties regarding the converter platforms BorWin alpha, HelWin alpha and SylWin alpha and the grid connection system BorWin1. The commitments end, at the latest, when TenneT Offshore GmbH has fully met its obligations. TenneT TSO GmbH issued comfort letters for the (long-term) financial obligations of TenneT Offshore GmbH and the European Market Coupling Company (EMCC) to several external parties for a total amount of EUR 1,541 million (2011: EUR 2,123 million).

APX-ENDEX

APX-ENDEX Derivatives B.V. entered into an agreement with European Commodity Clearing AG (ECC), whereby the latter offers central counterparty services for trades in Dutch power, UK Power, Belgian power and Title Transfer Facility (TTF) natural gas contracts registered via the ENDEX OTC clearing services or contracts traded on the regulated market operated by APX-ENDEX. The initial term runs until 31 December 2013. APX-ENDEX Derivatives B.V. entered into an agreement with EEX, in which EEX grants APX-ENDEX certain call options to participate in the shareholding of its subsidiary ECC and APX-ENDEX grants EEX a call option to repurchase ECC shares that are acquired by APX-ENDEX as a result of exercising such a purchase option and subsequently APX-ENDEX does not meet certain conditions. APX-ENDEX has granted the right to TenneT TSO B.V. to acquire the intellectual property rights of the trilateral market coupling algorithm for a fixed price under conditional events.

Operating leases

The total obligation under the operating leases for office premises and vehicles is as follows:

(in EUR million)	<1 year	1-5 years	>5 years	Total
At 31 December 2012	8	30	73	**111**
At 31 December 2011	13	28	65	**106**

Conditional obligations

TenneT Holding B.V. issued a guarantee against APX-ENDEX for an amount of EUR 10 million (2011: EUR 10 million). The guarantee against NIBC Bank B.V. in relation to CIF Holding B.V. (for an amount of EUR 13 million as per December 31, 2011) is settled in 2012 and therefore not applicable as per December 31, 2012.

APX-ENDEX has provided a number of bank guarantees, totalling EUR 17 million (2011: EUR 17 million) in connection with the office lease, market coupling obligations and adherence to the Belgian and Dutch power net code.

TenneT TSO B.V. issued bank guarantees for an amount of EUR 18 million (2011: EUR 18 million).

Conditional rights

At year-end 2012, TenneT TSO B.V. has received bank guarantees totalling EUR 69 million (2011: EUR 67 million) with respect to prepayments in relation to investment projects.

At year-end 2012, APX-ENDEX holds an amount of EUR 675 million of bank guarantees from members to cover trading margins (2011: EUR 653 million).

Parties with programme responsibility have issued bank guarantees totalling EUR 33 million (2011: EUR 34 million) to TenneT TSO B.V. in connection with the latter's maintenance of the energy balance between supply and demand.

Securities & comfort letters received

TenneT TSO GmbH received guarantees among which the following are the most important ones:

- in case TenneT TSO GmbH has to make prepayments in a building project, guarantees from the building companies are received to cover these prepayments. These guarantees currently amount to EUR 1,850 million (2011: EUR 600 million)
- TenneT TSO GmbH received comfort letters from program responsible parties covering obligations in relation with energy balancing for an amount of EUR 36 million (2011: EUR 37 million).

Legal and arbitration proceedings

TenneT believes it suffered damages from certain price fixings. TenneT has held the parties in question liable for losses sustained. As yet, the results hereof are uncertain.

Government guarantees received

A written put option – with an exercise price of EUR 375 million and an original term of 10 years – obliges TenneT Orange B.V. to buy the participation in TenneT TSO Duitsland B.V. held by the Foundation for the Management of Allocated Funds from the National High-Voltage Grid's when it is offered. TenneT Orange B.V.'s obligation is substantially covered by a guarantee issued by the Dutch State for an amount of EUR 300 million.

The Group has various other off-balance sheet rights and obligations, which are not sufficiently large to be disclosed separately.

Assets not at free disposal

A considerable portion of EUR 2 billion (2011: EUR 1.7 billion) of the consolidated assets is not at the Group's free disposal. These assets comprise receivables relating to the EEG, securities issued by parties trading on energy exchanges operated by APX-ENDEX, as well as funds received by TenneT TSO B.V. in connection with several of its activities, including:

- auctioning of cross-border interconnection capacity
- market coupling
- balancing the supply of and demand for energy
- EEG trade debtors.

8.2. Related parties

For an overview of legal entities that are included in the consolidated financial statements, reference is made to 2.2 Basis for consolidation.

TenneT has the following related parties:

The Dutch State
TenneT Holding B.V. is controlled by the Dutch State, which owns 100% of the company's shares.

Open Tower Company B.V.
Open Tower Company B.V. is deemed a related party because it is an indirect participation of TenneT Holding B.V.

Mobile Radio Networks Vehicle B.V.
Mobile Radio Networks Vehicle B.V. is deemed a related party because it is an indirect participation of TenneT Holding B.V. Two loans were issued to Mobile Radio Networks Vehicle B.V, please refer to note 7.6.

No material transactions with related parties, other than already disclosed, have taken place in 2012. Transactions that did take place were made under normal commercial terms and conditions.

Key management compensation

The key management compensation is broken down in note 6.2.3 and the Remuneration Report.

Legal entities that share key management personnel

Mr. Fuchs is ordinary member of the Supervisory Board of SAG Group. SAG is a supplier of TenneT in the Netherlands and Germany. As an ordinary member of the Supervisory Board consisting of 12 members, Mr. Fuchs has no significant influence on operational-, management-, or financial policy matters. Mr. Fuchs has not been consulted in any other way or involved in any specific aspects of contracts between SAG Group and TenneT.

SAG is not considered a related party.

8.3. Events after the reporting period

In January 2013, TenneT and Mitsubishi Corporation signed an agreement on an investment in two more offshore projects named HelWin2 and Dolwin2 in which Mitsubishi Corporation also will acquire a 49% voting interest for a maximum equity investment of EUR 336 million.

In February 2013 TenneT entered into a commitment for the DolWin3 offshore grid connection; the project budget amounts to EUR 1.8 billion.

In March 2013 the gas activities of APX-ENDEX were split off, whereby TenneT sold its interest in the gas activities in return for a cash payment as well as an additional equity interest in the remainder of APX-ENDEX. As a result TenneT's shareholding in APX-ENDEX changed to some 67%, for which TenneT is committed to a sale plan which could lead to loss of control. The effect on TenneT's equity attributable to owners of the parent is approximately EUR 30 million. The sales will be recognised in 2013.

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Company statement of income for the year 2012 (in EUR million)		
	2012	**2011**
Loss TenneT Holding B.V. after income tax	-30	-41
Profit from Group companies after income tax	207	270
Profit for the year	**177**	**229**

Company statement of financial position at 31 December before profit appropriation (in EUR million)			
Assets	**Note**	**2012**	**2011**
Non-current assets			
Investments in subsidiaries	9.2	4,058	3,641
Deferred tax assets		3	6
Other financial assets	9.3	3,234	2,306
		7,295	**5,953**
Current assets			
Other receivables	9.4	23	303
Other financial assets	9.3	63	22
Cash and cash equivalents		38	660
		124	**985**
Total assets		**7,419**	**6,938**

Company statement of financial position at 31 December before profit appropriation (in EUR million)			
Equity and liabilities	**Note**	**2012**	**2011**
Equity	9.5		
Shareholder equity		2,123	2,082
Hybrid securities		498	498
Total equity		**2,621**	**2,580**
Non-current liabilities			
Borrowings	9.6	2,670	2,580
Loans from subsidiaries	9.7	535	-
		3,205	**2,580**
Current liabilities			
Borrowings	9.6	886	17
Accounts payable and other liabilities	9.8	707	1,761
		1,593	**1,778**
Total equity and liabilities		**7,419**	**6,938**

Notes to the company financial statements

9.1. Accounting policies

The company financial statements for TenneT Holding B.V. have been prepared in accordance with the provisions of Part 9, Book 2, of the Netherlands Civil Code. The same principles governing valuation and the determination of results (including the principles governing the classification of financial instruments as equity or liability) have been applied in compilation of the company financial statements as in compilation of the consolidated financial statements, as permitted by Article 2:362, clause 8, of the Civil Code.

In this company financial statements the investments in subsidiaries are measured at net asset value. The net asset value of a participating interest is determined by valuing the assets, provisions and liabilities and calculating the result using the accounting principles applied to the consolidated financial statements. These accounting principles have been changed; refer to note 3.3 of the consolidated financial statements in respect of the effect on net equity and result.

When the company's share of losses in an investment equals or exceeds its interest in the investment, (including separately presented goodwill or any other unsecured non-current receivables, being part of the net investment), the company does not recognise any further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the investment. In such case the company will recognise a provision.

Pursuant to Article 402, Book 2, of the Netherlands Civil Code, the company profit-and-loss account has been presented in abridged form.

9.2. Investments in subsidiaries

The movement in investments in subsidiaries and associates can be broken down as follows:

(in EUR million)	**2012**	**2011**
Balance at 1 January	3,641	2,759
Increase of capital	380	673
Share in result	207	270
Dividend paid/received	-119	-54
Actuarial loss on defined benefit pensions though OCI	-27	-7
Net effect on partial sale of subsidiary	-24	-
Balance at 31 December	**4,058**	**3,641**

The investments in subsidiaries relate to the legal entities included in the consolidation as disclosed in note 2.2 of the consolidated financial statements.

9.3. Other financial assets

The other financial assets can be broken down as follows:

(in EUR million)	Total 2012		Total 2011	
	Current	Non-current	Current	Non-current
Receivables from subsidiaries	61	3,228	21	2,300
Credit facility fees	2	6	1	6
Total	**63**	**3,234**	**22**	**2,306**

The terms of the receivables are not fixed; no securities have been provided.
The agreed interest rates are between EONIA +0.125% and EONIA +0.9%.

9.4. Other receivables

The other receivables can be broken down as follows:

(in EUR million)	2012	2011
Interest receivable	-	2
Receivable from shareholder	-	300
Short-term part of long-term receivables	-	1
Current income tax receivable	23	-
	23	**303**

During 2011, TenneT and the Dutch State signed a contract in which the Dutch State is obliged to make a capital contribution of EUR 600 million, of which EUR 300 million was received in 2011. The remaining EUR 300 million is received in 2012.

9.5. Equity

The statement of changes in equity and disclosure to that statement are included in the consolidated financial statements. For details on the hybrid securities reference is made to note 7.12 of the consolidated financial statements.

In addition to the statement of changes in equity, a legal reserve was formed within shareholder equity for a revaluation reserve of EUR 107 million (2011: EUR 117 million) and a reserve for participating interest of EUR 10 million (2011: EUR 13 million). These reserves were charged against retained earnings.

The revaluation reserve serves to cover the revaluation of tangible fixed assets within TenneT TSO B.V.'s national high-voltage grid. Following the implementation of IFRS on 1 January 2004, the fair value exception provided for in IFRS 1 has been applied. This (once-only) exception allows tangible fixed assets to be stated at their fair value on the transition date. This figure is subsequently used as the 'deemed cost price'. The size of the revaluation reserve corresponds to that part of the restated value of the tangible fixed assets resulting from application of the fair value exception, less the deferred tax liability.

The reserve for participating interests relates to Holding des Gestionnaires de Réseaux de Transport d'Électricité S.A.S. and Open Tower Company B.V., for which TenneT cannot secure payment of dividends.

The hedging reserve, the reserve for exchange rate differences, the revaluation reserve and the reserve for participating interests are not freely distributable.

9.6. Borrowings

The details on the borrowings are included in the consolidated financial statements, note 7.13. Further reference is made to the respective note.

9.7. Loans from subsidiaries

The loans from subsidiaries comprise intercompany loans from the group companies included in the consolidation of the consolidated financial statements. A list of these companies can be found under note 2.2 of the consolidated financial statements.

The agreed interest rates on the loans are floating between EONIA -0.05% and EONIA+0.55%.

9.8. Accounts payable and other liabilities

(in EUR million)	**2012**	**2011**
Liabilities payable to subsidiaries	615	1,622
Interest	83	81
Current income tax payable	-	54
Other	9	4
	707	**1,761**

The terms of the liabilities payable to subsidiaries are not fixed; no securities have been provided. The agreed interest rates are between EONIA +0.125% and EONIA +0.9%.

9.9. Related parties

Legal entities that are included in the consolidated financial statements (2.2 Basis for consolidation) are regarded as related parties. Also, reference is made to note 8.2 of the consolidated financial statements.

9.10. Employees

During the year under review, TenneT Holding B.V. had no employees.
The key management compensation is broken down in note 6.2.3 of the consolidated financial statements and the Remuneration Report.

Arnhem, 7 March 2013

Management Board TenneT Holding B.V.

J.M. Kroon [1)]
M.J. Fuchs [1)]
E.T.A. de Boer [1)]
B.G.M. Voorhorst [1)]
A.A. Hartman

Supervisory Board TenneT Holding B.V.

A.W. Veenman
J.F.T. Vugts
J.F. van Duyne
P.M. Verboom
R.G.M. Zwitserloot

1) Statutory director

13 Other information

Profit appropriation

The appropriation of profits is governed by Section 38.3 of the Articles of Association, which states:
'Subject to approval by the Supervisory Board, the Management Board may reserve a portion of any profit that may remain after application of the provisions of clause 2, sufficient in the Management Board's view to finance capital expenditure to support fulfilment of the company's statutory duties as grid administrator, such as maintenance, expansion and environmental management. Any profit which is not thus reserved shall be at the free disposal of the General Meeting of Shareholders. When calculating the amount of profit to be paid out on each share, account shall be taken only of the sum of the obligatory call on the nominal value of the shares. In the event of a tied vote regarding the distribution or reservation of profits, the profit to which the proposal relates shall be reserved'.

The appropriation of the 2012 profit is at the free disposal of the General Meeting of Shareholders and has not been recorded in the financial statements.

Events after the reporting period

Reference is made to note 8.3 of the consolidated financial statements.

Independent auditor's report

Reference is made to the next page of this integrated annual report.

Independent auditor's report

To: the Shareholder and the Supervisory Board of TenneT Holding B.V.

Report on the financial statements

We have audited the accompanying financial statements 2012 of TenneT Holding B.V., Arnhem. The financial statements include the consolidated financial statements and the company financial statements. The consolidated financial statements comprise the consolidated statement of financial position as at 31 December 2012, the consolidated statement of income, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and the notes, comprising a summary of significant accounting policies and other explanatory information. The company financial statements comprise the company statement of financial position as at 31 December 2012, the company statement of income for the year then ended and the notes, comprising a summary of accounting policies and other explanatory information.

Management Board's responsibility

The Management Board is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Dutch Civil Code, and for the preparation of the Report by the Management Board in accordance with Part 9 of Book 2 of the Dutch Civil Code. Furthermore, the Management Board is responsible for such internal control as it determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Management Board, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion with respect to the consolidated financial statements
In our opinion, the consolidated financial statements give a true and fair view of the financial position of TenneT Holding B.V. as at 31 December 2012, and of its result and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Dutch Civil Code.

Opinion with respect to the company financial statements
In our opinion, the company financial statements give a true and fair view of the financial position of TenneT Holding B.V. as at 31 December 2012, and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements

Pursuant to the legal requirement under Section 2: 393 sub 5 at e and f of the Dutch Civil Code, we have no deficiencies to report as a result of our examination whether the Report by the Management Board, to the extent we can assess, has been prepared in accordance with Part 9 of Book 2 of this Code, and whether the information as required under Section 2: 392 sub 1 at b-h has been annexed. Further we report that the Report by the Management Board, to the extent we can assess, is consistent with the financial statements as required by Section 2: 391 sub 4 of the Dutch Civil Code.

Arnhem, 7 March 2013
PricewaterhouseCoopers Accountants N.V.

Original has been signed by drs. C.J.A.M. Romme RA

Information on Boards

Composition

The TenneT Management Board and Supervisory Board bring together people with different experience and backgrounds and value a diversity of skills and knowledge. TenneT believes this variety positively contributes to assessing situations and the decision-making process. TenneT is aware of the female underrepresentation in the Management Board and Supervisory Board. With future appointments TenneT will take this into account and will make serious efforts to comply with the equal gender targets set by the European Commission in order to ensure a more equal gender representation in the Boards by 2020.

Information on Management Board members

J.M. (Mel) Kroon

Chairman of the Board and Chief Executive Officer

Year of birth	1957
Nationality	Dutch
Appointment	2002
Principal position	Chief Executive Officer
Other position qualitate qua	• Chairman Management Board TenneT TSO B.V. • Chairman Supervisory Board TenneT TSO GmbH • Chairman Supervisory Board NOVEC B.V. • Member Supervisory Board EPEX Spot • Member Supervisory Board APX Endex • Member Comité d'Administration Powernext S.A
Other positions	• Member Supervisory Board Havenbedrijf Rotterdam N.V. • Member Supervisory Board HTM Personenvervoer N.V.

M.J. (Martin) Fuchs

Vice-chairman of the Board

Year of birth	1953
Nationality	German
Appointment	2010
Principal position	Chief Officer Asset Management
Other position qualitate qua	Chairman Management Board TenneT TSO GmbH
Other positions	• Member Supervisory Board SAG GmbH

E.T.A. (Eelco) de Boer

Member of the Board

Year of birth	1953
Nationality	Dutch
Appointment	2010, 2011 as statutory director
Principal position	Chief Financial Officer
Other position qualitate qua	• Member Board TenneT TSO B.V. • Member Supervisory Board TenneT TSO GmbH
Other positions	• Member Supervisory Board University Twente

B.G.M. (Ben) Voorhorst

Member of the Board

Year of birth	1959
Nationality	Dutch
Appointment	2006
Principal position	Chief Operating Officer
Other positions qualitate qua	• Member Board TenneT TSO B.V. • Member Board TenneT TSO GmbH • Member Supervisory Board NOVEC B.V.
Other positions	• Member Board of the Dutch association Netbeheer Nederland • Member Supervisory Board Energie Data Services Nederland B.V. (EDSN) • Member Board of the Dutch Association for Nederlandse Energie Data Uitwisseling (Nedu) • Member Cyber Security Raad

A.A. (Lex) Hartman

Member of the Board (non-statutory director)

Year of birth	1956
Nationality	Dutch
Appointment	2008
Principal position	Director Corporate Development
Other positions qualitate qua	• Member Board TenneT TSO B.V. • Member Board TenneT TSO GmbH • Chairman Board BritNed Development Ltd. • Director NLink International B.V.
Other positions	• Member Board FLOW – Far and Large Offshore Wind

Information on Supervisory Board members

A.W. (Aad) Veenman

Chairman Supervisory Board
Member Remuneration and Appointment Committee
Member Strategic Investments Committee

Year of birth	1947
Nationality	Dutch
Initial appointment	9 March 2005
Expiration second term	9 March 2013
Principal position	Former President N.V. Nederlandse Spoorwegen
Other positions	• Member Supervisory Board Eureko B.V./Achmea • Member Supervisory Board Draka N.V.

J.F.T. (Jan) Vugts

Vice-chairman Supervisory Board
Member Audit Committee

Year of birth	1942
Nationality	Dutch
Initial appointment	17 July 2001
Expiration last term	17 July 2013
Principal position	Former Chairman Management Board SNS REAAL N.V.
Other positions	• Member Aufsichtsrat TenneT TSO GmbH • Chairman Supervisory Council Stichting Alewijnse • Member Supervisory Council Trust Office Foundation of Marteau Pierre • Member Supervisory Council Trust Office Foundation of MercaChem

J.F. (Fokko) van Duyne

Member Supervisory Board
Chairman Remuneration and Appointment Committee
Chairman Strategic Investments Committee

Year of birth	1942
Nationality	Dutch
Initial appointment	26 October 2001
Expiration last term	26 October 2013
Principal position	Former Chairman Management Board Hoogovens N.V./Corus Ltd.
Other positions	• Chairman Supervisory Board Koninklijke Verkade N.V. • Chairman Supervisory Board Gamma Holding N.V.

R.G.M. (Rien) Zwitserloot

Member Supervisory Board
Member Strategic Investments Committee

Year of birth	1949
Nationality	Dutch
Initial appointment	24 November 2010
Expiration first term	24 November 2014
Principal position	Former Chairman Management Board Wintershall AG
Other positions	• Member Supervisory Board Royal VOPAK N.V. • Member Supervisory Board Amsterdam Capital Trading Group B.V.

Dr. P.M. (Pieter) Verboom

Member Supervisory Board
Member Audit Committee

Year of birth	1950
Nationality	Dutch
Initial appointment	18 September 2012
Expiration first term	18 September 2016
Principal positions	• Former CFO/Executive Vice President Schiphol Groep • CFO RFS Holland Holding B.V.
Other positions	• Member Supervisory Board and Chairman Audit Committee VastNed Retail N.V. • Member Advisory Board NIBC Merchant Bank • Chairman Curatorium Masteropleiding RC EUR • Member of the (deputy) Enterprise Division of the Amsterdam Court of Appeal • Member Supervisory Board Brisbane Airport Company • Advisor to John F. Kennedy Airport New York

Organisation

Activities

TenneT Holding B.V. currently manages the following activities (as at March 2013):

Regulated activities

TenneT TSO B.V.

TenneT TSO B.V. manages the Dutch national transmission grid (i.e. the grids with a voltage level of 110 kV and higher), as well as the cross border interconnections. TenneT TSO B.V. also maintains the balance between the supply and demand of energy in the Dutch electricity grid. The electricity grids of 110 kV and higher are owned by several different subsidiaries of TenneT TSO B.V. This structure was established for several reasons, including the acquisition of the high voltage grids of Liander N.V., Enexis B.V. and Delta N.V. in 2009.

- B.V. Transportnet Zuid Holland (trading as TenneT Zuid Holland).
  This company owns the 150 kV grid and part of the 380 kV grid in the province of Zuid Holland.
- HS Netten Zeeland B.V.
  This company owns the former 150 kV and 380 kV grids of Delta N.V.
- Nadine Netwerk B.V.
  This company owns the former Liander N.V. high voltage grid with a voltage level of 110 kV and higher, with the exception of the 150 kV grid of Liander N.V. (the so called 'Randmeren grid') which is covered by cross-border lease contracts.
- Saranne B.V.
  Saranne B.V. is the legal owner of almost all the physical components of the 220 kV and 380 kV grid of which TenneT TSO B.V. is the economic owner.
- TenneT TSO E B.V. (formerly Essent Netwerk Hoogspanningsnetten B.V.)
  This company owns the former Enexis B.V. high voltage grid of 110 kV and higher.
- Reddyn B.V.
  Reddyn is a joint venture (50/50) between TenneT TSO B.V. and Liander N.V., and is responsible for the construction, maintenance and technical support of the former 110/150 kV grid and 50kV grid of Liander N.V.

TenneT TSO GmbH and TenneT Offshore GmbH

TenneT TSO GmbH manages approximately 40% of the German transmission grid (380 kV and 220 kV) and is responsible for maintaining the balance between supply and demand in this area. TenneT Offshore GmbH is responsible for offshore wind farm connections.

- TenneT Offshore 2. Beteiligungsgesellschaft mbH
  This entity is a holding company, holding the shares in TenneT Offshore 1. Beteiligungsgesellschaft mbH.
- TenneT Offshore 1. Beteiligungsgesellschaft mbH
  This company is responsible for the construction, maintenance and management of the BorWin1 and BorWin2 connection systems which (will) connect certain offshore wind farms located in the North Sea with the high-voltage grid of TenneT TSO GmbH.
- TenneT Offshore 8. Beteiligungsgesellschaft mbH
  This entity is a holding company, holding the shares in TenneT Offshore 9. Beteiligungsgesellschaft mbH.
- TenneT Offshore 9. Beteiligungsgesellschaft mbH
  This company is responsible for the construction, maintenance and management of the DolWin2 connection system which (will) connect certain offshore wind farms located in the North Sea with the high-voltage grid of TenneT TSO GmbH.

- TenneT Offshore 10. Beteiligungsgesellschaft mbH
  This entity is a holding company, holding the shares in TenneT Offshore 11. Beteiligungsgesellschaft mbH.
- TenneT Offshore 11. Beteiligungsgesellschaft mbH
  This company is responsible for the construction, maintenance and management of the HelWin2 connection system which (will) connect certain offshore wind farms located in the North Sea with the high-voltage grid of TenneT TSO GmbH.
- TenneT Offshore 4. Beteiligungsgesellschaft mbH
  This entity is a holding company, holding the shares in TenneT Offshore 7. Beteiligungsgesellschaft mbH
- TenneT Offshore 7. Beteiligungsgesellschaft mbH
  This company is responsible for the construction, maintenance and management of the SylWin1 and DolWin1 connection systems which (will) connect certain offshore wind farms located in the North Sea with the high-voltage grid of TenneT TSO GmbH.
- DC Netz Beteiligungsgesellschaft mbH
  This entity is a holding company, holding the shares in DC Netz GmbH.
- DC Netz GmbH
  This entity is a holding company, holding the shares in DC Netz BorWin3 GmbH, DC Netz BorWin4 GmbH, DC Netz HelWin1 GmbH and DC Netz DolWin3 GmbH.
- DC Netz BorWin3 GmbH
  This company is responsible for the construction, maintenance and management of the BorWin3 connection system which (will) connect certain offshore wind farms located in the North Sea with the high-voltage grid of TenneT TSO GmbH.
- DC Netz BorWin4 GmbH
  This company is responsible for the construction, maintenance and management of the BorWin4 connection system which (will) connect certain offshore wind farms located in the North Sea with the high-voltage grid of TenneT TSO GmbH.
- DC Netz HelWin1 GmbH
  This company is responsible for the construction, maintenance and management of the HelWin1 connection system which (will) connect certain offshore wind farms located in the North Sea with the high-voltage grid of TenneT TSO GmbH.
- DC Netz DolWin3 GmbH
  This company is responsible for the construction, maintenance and management of the DolWin3 connection system which (will) connect certain offshore wind farms located in the North Sea with the high-voltage grid of TenneT TSO GmbH.
- DC Netz SylWin2 GmbH
  This company is responsible for the construction, maintenance and management of the SylWin2 connection system which (will) connect certain offshore wind farms located in the North Sea with the high-voltage grid of TenneT TSO GmbH.
- DC Netz DolWin4 GmbH
  This company is responsible for the construction, maintenance and management of the DolWin4 connection system which (will) connect certain offshore wind farms located in the North Sea with the high-voltage grid of TenneT TSO GmbH.
- DC Netz BorWin5 GmbH
  This company is responsible for the construction, maintenance and management of the BorWin5 connection system which (will) connect certain offshore wind farms located in the North Sea with the high-voltage grid of TenneT TSO GmbH.

Corporate structure
After the acquisition of transpower (now: TenneT TSO GmbH and TenneT Offshore GmbH), TenneT's structure comprises the following companies:

- TenneT TSO Duitsland B.V., TenneT Orange B.V. and TenneT Blue B.V.
  In effect these entities are holding companies, i.e. direct subsidiaries of TenneT Holding B.V.
- TenneT Duitsland Coöperatief U.A.
  TenneT TSO Duitsland B.V.,
  TenneT Holding B.V. and TenneT Blue B.V. hold the membership rights in TenneT Duitsland Coöperatief U.A.
- TransTenneT B.V.
  The shares in this holding company are held by TenneT Duitsland Coöperatief U.A.
- TenneT Verwaltungs GmbH
  This private limited company under German law is the general partner/director of TenneT GmbH & Co. KG. Its shares are held by TransTenneT B.V.
- TenneT GmbH & Co. KG
  This limited partnership under German law took over the shares in TenneT TSO GmbH and TenneT Offshore GmbH. TenneT Verwaltungs GmbH holds 1%. TransTenneT B.V. is the limited partner in this company.

CertiQ B.V.
CertiQ B.V. issues certificates for sustainably generated electricity. The object of these 'Guarantees of Origin' is to confirm sustainable generation and to obtain grants under the government scheme operated by SenterNovem. The Guarantees are registered, issued and traded electronically.

TSO Auction B.V.
TSO Auction B.V. auctioned the available capacity on the five cross border interconnections in the high voltage grid (two to Belgium and three to Germany).

The activities of TSO Auction have now been transferred to CASC.EU; it is expected that TSO Auction B.V. will be dissolved early 2013.

Stichting Beheer Doelgelden Landelijk Hoogspanningsnet
The Foundation for the Management of Allocated Funds from the National High Voltage Grid was established as a trust office to manage the allocated funds received by TenneT in its capacity as administrator of the national high voltage grid through performance of its statutory duties. These allocated funds comprise proceeds of imbalance settlements and auction receipts. TenneT TSO B.V.'s allocated funds are intended for designated purposes in connection with the upgrading of the Dutch high voltage grid. The Foundation holds a 10% equity interest in TenneT TSO Duitsland B.V. as part of its investment portfolio.

Non regulated activities

APX ENDEX Holding B.V.
APX ENDEX Holding B.V., with its head office in Amsterdam, is a group of international electricity and gas exchanges for short and long term trading in Belgium, the Netherlands and the United Kingdom. N.V. Nederlandse Gasunie owns 20.9%, the Belgian TSO Elia System Operator S.A. owns (20%), Fluxys S.A. (3%), and the remaining 56.1% are held by TenneT Holding B.V. One of the core activities of APX ENDEX Holding B.V. in the Netherlands consists of running the spot market for electricity. It is possible to trade anonymously on this market by means of an auction system that runs on an electronic trading platform. Trading is in spot contracts for next day and intraday delivery. The exchange clears the contracts and publishes information, including a daily price index.

Together with other exchanges and TSOs, APX-ENDEX has introduced market coupling for the Dutch, Belgian and French spot power markets, as well as the German and Luxembourgian markets within the Central Western European (CWE) market coupling project. Market coupling with Norway and the broader Nordic region is operational through NorNed, the electricity cable between the Netherlands and Norway.

- APX Commodities Ltd.
  APX Commodities Ltd. is the British electricity and gas exchange that facilitates two thirds of all 24 hour and spot trading of gas in the United Kingdom and is regulated by the UK Financial Services Authority (FSA).
- APX ENDEX Power B.V.
  The Dutch company that trades spot contracts for electricity.
- APX ENDEX Clearing B.V.
  The company that clears the contracts that have been traded on various APX-ENDEX exchanges.
- APX ENDEX Gas B.V.
  APX ENDEX Gas B.V. facilitates intraday and spot trading on the Title Transfer Facility (TTF), a virtual trading platform in the Netherlands. The company also operates a gas trading platform at the Belgian port of Zeebrugge. It acts as a central counterparty to allow parties to trade anonymously.
- APX ENDEX Derivatives B.V.
  APX ENDEX Derivatives is an exchange for term contracts on the Dutch, Belgian and UK electricity and gas markets and is regulated by the Netherlands Authority for the Financial Markets (AFM).
- Belpex S.A.
  APX ENDEX Holding B.V. holds 100% of the shares in Belpex, the Belgian electricity exchange.

NLink International B.V.
NLink International B.V. was established to develop and construct international subsea cable links, including a cable link to the United Kingdom.

- BritNed Development Ltd.
  BritNed Development Ltd. is a 50/50 joint venture of NLink International B.V. and National Grid International Ltd., with its registered office in London. It was set up to develop, construct and operate an interconnector between the Netherlands and the United Kingdom.

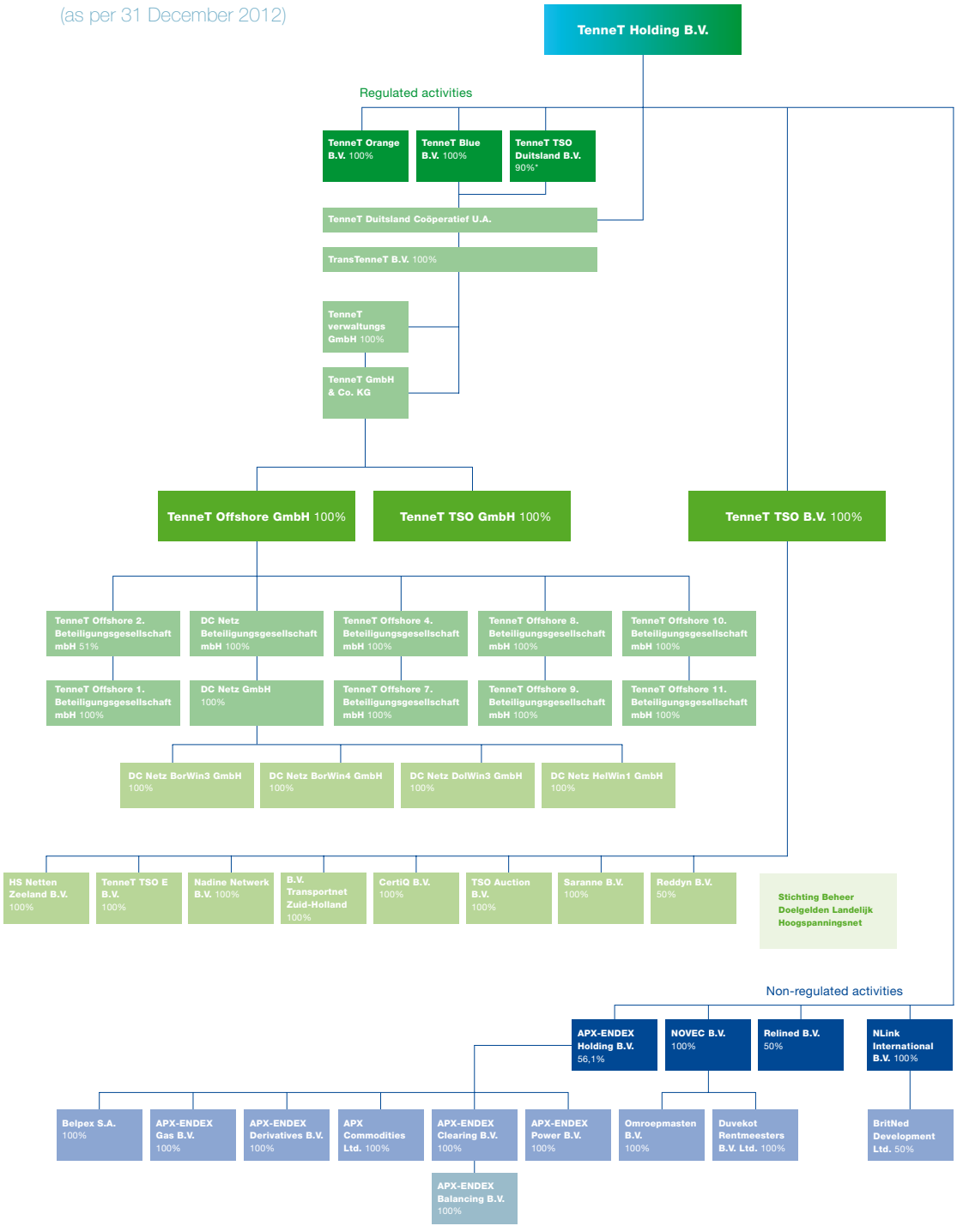
NOVEC B.V.
NOVEC B.V. rents out and manages antenna sites for distributing radio and television signals via the air and for telecommunication purposes.

- Omroepmasten B.V.
  NOVEC B.V. split off its high antenna masts for ether communication to this company.
- Duvekot Rentmeesters B.V.
  NOVEC acquired in 2012 100% of the shares of this company. Duvekot Rentmeesters B.V. offers its clients estate administration and consultancy services.
- Open Tower Company B.V.
  The shares in this holding company are held by NOVEC B.V. (25%) and CIF Holding Wireless B.V. (75%). This company holds 100% of the shares in Mobile Radio Networks Vehicle B.V., Air Towers (1) B.V. and Air Towers (2) B.V., Dutchfort B.V., as well as 100% of the shares in Colonne B.V. (all are asset companies owning masts used for antenna sites).

RELINED B.V.
RELINED B.V. is a 50/50 joint venture between TenneT Holding B.V. and ProRail B.V. operates the fibre optic cable infrastructure of the high voltage grid and the railway network.

TenneT Group legal structure

(as per 31 December 2012)



* 10% Stichting Beheer Doelgelden Landelijk Hoogspanningsnet

Abbreviations, definitions and ratios

BNetzA
Bundesnetzagentur für Elektrizität, Gas, Telekommunikation, Post und Eisenbahnen
German regulatory authority, whose duty it is to maintain and to promote the competition in so-called grid markets.

BritNed
The 260 km HVDC BritNed cable has a capacity of 1000 MW and interconnects the Dutch and British electricity grids (commissioned in 2011).

Carbon footprint
The total amount of greenhouse gases produced to directly and indirectly support human activities, usually expressed in equivalent tons of carbon dioxide (CO_2).

CASC.EU
Capacity Allocation Service Company.EU
CASC.EU is the central auction office for cross-border transmission capacity for Central Western Europe, the borders of Italy, Northern Switzerland and parts of Scandinavia. CASC.EU facilitates the purchasing and selling of transmission capacity by providing a single auction platform and point of contact.

EBIT
Earnings before interest and tax
Profit before income tax plus finance costs plus share of result of associates adjusted for non-core business related effects.

EBITDA
Earnings before interest, tax, depreciation and amortisation

EBIT growth
(EBIT year t minus EBIT year t-1)/EBIT year t-1

EEG
Erneuerbare-Energien-Gesetz
German Renewable Energy Act, designed to govern the preferred supply of electricity from renewable sources into the grid with guaranteed, fixed minimum producer prices. It is intended to serve and protect the climate and is one of several statutory provisions with which the dependence on fossil fuels like oil, natural gas or coal, and nuclear power should be reduced. The EEG-regulations only apply to the generation of energy.

ENTSO-E
European Network of Transmission System Operators for Electricity
ENTSO-E is the organisation of Transmission System Operators (TSOs) at a European level. Its mission is to promote important aspects of energy policy.

FFO
Funds from operations
Profit after tax allocated to shareholder plus depreciation and amortisation minus other income adjusted for non-core business related effects.

FTE
Full-time equivalent
A full-time employment position

GAAP
Generally Accepted Accounting Principles, which can differ per country.

GW
gigawatt
An amount of power equal to 1 billion watts.

GWh
gigawatt hour
An amount of energy equivalent to delivering 1 billion watts of power for a period of one hour.

HVDC
High-Voltage Direct Current
A HVDC electric power transmission system uses direct current for the bulk transmission of electrical power, in contrast with the more common alternating current systems. The advantage of HVDC is the ability to transmit large amounts of power over long distances with lower capital costs and with lower losses than alternating current. HVDC allows efficient use of energy sources remote from load centres.

IFRS
International Financial Reporting Standards
The internationally prescribed and recognised reporting guidelines applied by TenneT.

Invested capital
Equity plus net debt minus capital contribution committed but not yet received.

kV
kilovolt
An amount of electric force equal to 1,000 volts.

KWK-G
Kraft-Wärme-Kopplungs-Gesetz
German Combined Heat and Power Act.

LTIF
Lost Time Injury Frequency
The number of lost-time injuries per million hours worked. A lost time injury is an injury that has resulted in at least one day's absence from work.

MW
megawatts
An amount of power equal to 1 million watts.

MWh
megawatt hour
An amount of energy equivalent to delivering 1 million watts of power for a period of one hour.

Net debt
Total interest bearing debt minus cash and cash equivalents at TenneT's free disposal plus or minus EEG amounts to be received or paid, respectively.

NMa
Nederlandse Mededingingsautoriteit
The Netherlands Competition Authority regulates the network operators on the electricity market, and it sets maximum tariffs for transmission for the national grid operator's system services and for the connections to the grid. The NMa creates conditions for a well-functioning national and international wholesale market.

NorNed cable
The 580km HVDC NorNed cable has a capacity of 700MW and interconnects the Dutch and Norwegian electricity grids (commissioned in 2008).

Return on invested capital
EBIT/average invested capital during the relevant period.

SF6
Sulfur Hexafluoride, an inorganic, colourless, odourless and non-flammable greenhouse gas. SF6 is used in the electrical industry as a gaseous dielectric medium for high-voltage circuit breakers, switchgear and other electrical equipment.

TSO
Transmission System Operator
An operator that transmits electrical power from generation plants to regional or local electricity distribution operators.

VOCs
Volatile Organic Compounds
A VOC is any organic compound having an initial boiling point less than or equal to 250°C measured at a standard atmospheric pressure of 101.3 kPa and can do damage to visual or audible senses.

Wintrack
A new type of high-voltage pylon developed by TenneT. This innovative design replaces the existing lattice tower in the Netherlands and significantly reduces the so-called 'electromagnetic field zone'.


B01
S5-2

14 GRI Table

Content Index – Electric Utilities Sector Supplement – GRI Application Level C.

1. Strategy and analysis			
Profile Disclosure	**Description**	**Reported 2012**	**Cross-reference/Direct answer 2012**
1,1	Statement from the most senior decision-maker of the organisation about the relevance of sustainability to the organisation and its strategy. Including vision and strategy short- medium- and long-term, key challenges, strategic priorities, broader trends, key events, achievements and failures during the reporting period.	Fully	Report by the CEO
1,2	Description of the organisation's key impacts on sustainability and effects on stakeholders, risks and opportunities, incl targets and performance against targets.	Fully	CSR chapter - Society & markets
2. Organisational profile			
Profile Disclosure	**Description**	**Reported 2012**	**Cross-reference/Direct answer 2012**
2.1	Name of the organisation.	Fully	Profile
2.2	Primary brands, products, and/or services.	Fully	Profile
2.3	Operational structure of the organisation, including main divisions, operating companies, subsidiaries, and joint ventures.	Fully	Profile, Organisation
2.4	Location of organisation's headquarters.	Fully	Profile
2.5	Number of countries where the organisation operates, and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the report.	Fully	Profile
2.6	Nature of ownership and legal form.	Fully	Profile, Organisation
2.7	Markets served (including geographic breakdown, sectors served, and types of customers/ beneficiaries).	Fully	Profile, Organisation
2.8	Scale of the reporting organisation.	Fully	Consolidated key figures, Human Resources
2.9	Significant changes during the reporting period regarding size, structure or ownership.	Fully	Note 1.2 to the consolidated financial statements Organisation TenneT Group legal structure
2.10	Awards received in the reporting period.	Fully	No records of awards for 2012
EU1	Installed capacity, broken down by primary energy source and by regulatory regime.	Not	Not applicable to TenneT's primary operations (TenneT does not generate electricity)
EU2	Net energy output broken down by primary energy source and by regulatory regime.	Not	Not applicable to TenneT's primary operations (TenneT does not generate electricity)

EU3	Number of residential, industrial, institutional and commercial customer accounts.	Not	Total 63, excluding customers in cross-border areas (17 producers, 38 consumers and 8 grid operators)
EU4	Length of above and underground transmission and distribution lines by regulatory regime	Partially	Consolidated key figures CSR chapter - Underground cable installation
EU5	Allocation of CO_2 emissions allowances or equivalent, broken down by carbon trading framework.	Not	Not applicable to TenneT.
3. Report Parameters			
Profile Disclosure	**Description**	**Reported 2012**	**Cross-reference/Direct answer 2012**
3.1	Reporting period (e.g., fiscal/calendar year)	Fully	Consolidated key figures
	for information provided.		Note 1.1 to the consolidated financial statements
3.2	Date of most recent previous report (if any).	Fully	March 22, 2012
3.3	Reporting cycle (annual, biennial, etc.)	Fully	Half yearly
3.4	Contact point for questions regarding the report or its contents.	Fully	Last page
3.5	Process for defining report content.	Fully	CSR chapter Notes 2 and 3 to the consolidated financial statements
3.6	Boundary of the report (e.g., countries, divisions, subsidiaries, leased facilities, joint ventures, suppliers). See GRI Boundary Protocol for further guidance.	Fully	TenneT Netherlands and Germany
3.7	State any specific limitations on the scope or boundary of the report (see completeness principle for explanation of scope).	Fully	Notes 2 to the consolidated financial statements. The information in the CSR chapter contains all consolidated subsidiaries excluding APX-ENDEX.
3.8	Basis for reporting on joint ventures, subsidiaries, leased facilities, outsourced operations, and other entities that can significantly affect comparability from period to period and/or between organisations.	Fully	Notes 2 to the consolidated financial statements. The information in the CSR chapter contains all consolidated subsidiaries excluding APX-ENDEX.
3,9	Data measurement techniques, principles and assumptions	Partially	Assumptions and information on calculation techniques are provided in the text or as a footnote to a table or graph, where relevant
3.10	Explanation of the effect of any re-statements of information provided in earlier reports, and the reasons for such re-statement (e.g. mergers/ acquisitions, change of base years/periods, nature of business, measurement methods).	Fully	Certain comparatives have been reclassified in order to comply with current year's presentation. This has been disclosed in the relevant sections (if applicable)

3.11	Significant changes from previous reporting periods in the scope, boundary, or measurement methods applied in the report.	Fully	No significant changes applicable
3.12	Table identifying the location of the Standard Disclosures in the report.	Fully	GRI Table
4. Governance, Commitments and Engagement			
Profile Disclosure	**Description**	**Reported 2012**	**Cross-reference/Direct answer 2012**
4.1	Governance structure of the organisation, including committees under the highest governance body responsible for specific tasks, such as setting strategy or organisational oversight.	Fully	Corporate Governance, Report by the Supervisory Board, Information on Management Board Members, Information on Supervisory Board Members. The CSR policy is developed by the Corporate Safety and Security department, within all TenneT activities CSR is incorporated
4.2	Indicate whether the Chair of the highest governance body is also an executive officer.	Fully	Corporate Governance (The highest governance body is the supervisory board which has no direct operational decision power)
4.3	For organisations that have a unitary board structure, state the number and gender of members of the highest governance body that are independent and/or non-executive members.	Fully	Report by the Supervisory Board - all members are independent
4.4	Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body.	Fully	Human Resources, Corporate Governance (All shares in the capital of TenneT are held by the State of the Netherlands, whereas employees may formally exercise power through the respective work councils in both countries)
4.14	List of stakeholder groups engaged by the organisation.	Fully	Throughout the report and especially in the CSR chapter
4.15	Basis for identification and selection of stakeholders with whom to engage.	Fully	All persons and organisations which are affected by our activities or with whom we have a relationship, we consider stakeholder.
Economic			
Performance Indicator	**Description**	**Reported 2012**	**Cross-reference/Direct answer 2012**
Economic performance			
EC1	Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings, and payments to capital providers and governments.	Fully	Consolidated Financial Statements

EC2	Financial implications and other risks and opportunities for the organisation's activities due to climate change.	Fully	Report by the CEO, Financial Report - Outlook (Climate changes affects TenneT's operations mainly through an increasing demand to integrate new, renewable energy sources in the high voltage network)
EC3	Coverage of the organisation's defined benefit plan obligations.	Fully	Note 7.15 to the Consolidated Financial Statements
EC4	Significant financial assistance received from government.	Not	Not applicable for 2012. Further reference also made to note 8.2 of the consolidated financial statements
Market Presence			
EC5	Range of ratios of standard entry level wage compared to local minimum wage at significant locations of operation.	Not	TenneT operates in the Netherlands and Germany only, which makes this indicator less relevant
EC6	Policy, practices, and proportion of spending on locally-based suppliers at significant locations of operation.	Not	TenneT operates in the Netherlands and Germany only, which makes this indicator less relevant
EC7	Procedures for local hiring and proportion of senior management hired from the local community at significant locations of operation.	Not	TenneT operates in the Netherlands and Germany only, which makes this indicator less relevant
Indirect economic impacts			
EC8	Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind, or pro bono engagement.	Fully	The development and maintenance of the high voltage electricity infrastructure is part of TenneT's primary activities
EC9	Understanding and describing significant indirect economic impacts, including the extent of impacts.	Fully	Report by the CEO, CSR chapter, Financial Report, note 1.2 to the consolidated financial statements
Availability and reliability			
EU10	Planned capacity against projected electricity demand over the long-term, broken down by energy source and regulatory regime.	Partially	Consolidated key figures, Report by the Management Board - Key events in 2012 (TenneT does not generate electricity, however it pro-actively anticipates the demand to integrate renewable energy sources)
System efficiency			
EU11	Average generation efficiency of thermal plants by	Not	Not applicable to TenneT
EU12	energy source and regulatory regime. Transmission and distribution losses as a percentage of total energy.	Fully	Consolidated key figures
Environmental			
Performance Indicator	**Description**	**Reported 2012**	**Cross-reference/Direct answer 2012**
Materials			
EN1	Materials used by weight or volume.	Partially	CSR chapter Environment SF6, VOC
EN2	Percentage of materials used that are recycled input materials.	Partially	No information available, as yet

Energy			
EN3	Direct energy consumption by primary energy source.	Fully	No information available, as yet
EN4	Indirect energy consumption by primary source.	Fully	No information available, as yet
EN5	Energy saved due to conservation and efficiency improvements.	Not	No information available, as yet
EN6	Initiatives to provide energy-efficient or renewable energy based products and services, and reductions in energy requirements as a result of these initiatives.	Fully	Report by the CEO, Mission vision and strategy, Innovation (TenneT facilitates the integration of renewable energy sources in the high-voltage electricity grid)
EN7	Initiatives to reduce indirect energy consumption and reductions achieved.	Not	No information available, as yet
Water			
EN8	Total water withdrawal by source.	Not	Not material to TenneT (no significant water consumption related to the primary production process)
EN9	Water sources significantly affected by withdrawal of water.	Not	Not material to TenneT (no significant water consumption related to the primary production process)
EN10	Percentage and total volume of water recycled and reused.	Not	Not material to TenneT (no significant water consumption related to the primary production process)
Biodiversity			
EN11	Location and size of land owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas.	Not	No information available
EN12	Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas.	Fully	CSR chapter
EU13	Biodiversity of offset habitats compared to the biodiversity of the affected areas	Not	No information available
EN13	Habitats protected or restored.	Fully	CSR chapter
EN14	Strategies, current actions and future plans for managing impacts on biodiversity.	Fully	CSR chapter
EN15	Number of IUCN Red List species and national conservation list species with habitats in areas affected by operations, by level of extinction risk.	Not	No information available
Emissions. effluents and waste			
EN16	Total direct and indirect greenhouse gas emissions by weight.	Fully	CSR chapter Carbon footprint
EN17	Other relevant indirect greenhouse gas emissions by weight.	Fully	CSR chapter Carbon footprint
EN18	Initiatives to reduce greenhouse gas emissions and reductions achieved.	Not	No information available, as yet
EN19	Emissions of ozone-depleting substances by weight.	Fully	CSR chapter Environment (VOCs)
EN20	NOx, SOx, and other significant air emissions by type and weight.	Not	CSR chapter Environment (VOCs), carbon footprint travel

EN21	Total water discharge by quality and destination.	Not	Not applicable to TenneT (no significant water consumption related to the primary production process)
EN22	Total weight of waste by type and disposal method.	Partially	CSR chapter Waste
EN23	Total number and volume of significant spills.	Fully	CSR chapter Soil calamities, soil
EN24	Weight of transported, imported, exported, or treated waste deemed hazardous under the terms of the Basel Convention Annex I, II, III, and VIII, and percentage of transported waste shipped internationally.	Not	contamination, groundwater contamination
EN25	Identity, size, protected status, and biodiversity value of water bodies and related habitats significantly affected by the reporting organisation's discharges of water and runoff.	Not	Not applicable to TenneT Not material to TenneT (no significant other air emissions related to the primary production process)
Products and services			
EN26	Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation.	Fully	CSR chapter - Society & markets i.e. efforts to reduce grid losses and 'green' them through Guarantees of Origin
EN27	Percentage of products sold and their packaging materials that are reclaimed by category.	Not	Not applicable to TenneT
Compliance			
EN28	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations.	Not	Not reported
Transport			
EN29	Significant environmental impacts of transporting products and other goods and materials used for the organisation's operations, and transporting members of the workforce.	Not	CSR chapter Carbon footprint
Overall			
EN30	Total environmental protection expenditures and investments by type.	Not	Not reported
Social: Labor Practices and Decent Work			
Performance Indicator	**Description**	**Reported 2012**	**Cross-reference/Direct answer 2012**
Employment			
LA1	Total workforce by employment type, employment contract, and region.	Partially	Human Resources
LA2	Total number and rate of new employee hires and employee turnover by age group, gender, and region.	Not	Not reported
EU17	Days worked by contractor and subcontractor employees involved in construction, operation and maintenance activities.	Not	Not reported
EU18	Percentage of contractor and subcontractor employees that have undergone relevant health and safety training.	Not	In general, TenneT requires contractors to take care of Health & Safety training according to law standards
LA3	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by significant locations of operation.	Not	In general, benefits are equally divided between full-time and temporary or part-time employees (as much as possible)
LA15	Return to work and retention rates after parental leave, by gender.	Not	Not reported

Labor/management relations			
LA4	Percentage of employees covered by collective bargaining agreements.	Fully	In the Netherlands all employees with the exception of the Board of Directors. In Germany approximately 83%.
LA5	Minimum notice period(s) regarding significant operational changes, including whether it is specified in collective agreements.	Not	Please refer to collective labor agreements and additional law requirements.
Occupational health and safety			
LA6	Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programs.	Not	Not reported (TenneT has several formal and informal committees for Safety, Health & Environment in the Netherlands as well as in Germany)
LA7	Rates of injury, occupational diseases, lost days, and absenteeism, and total number of work-related fatalities by region and by gender	Partially	Human Resources, Safety, CSR
LA8	Education, training, counseling, prevention, and risk-control programs in place to assist workforce members, their families, or community members regarding serious diseases.	Partially	Human Resources, Safety
LA9	Health and safety topics covered in formal agreements with trade unions.	Fully	Included in the collective labor agreements regarding job safety and physical health. The works councils have a formal right of say regarding corporate health policies.
Training and education			
LA10	Average hours of training per year per employee by gender and by employee category.	Partially	Human Resources
LA11	Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings.	Partially	Human Resources
LA12	Percentage of employees receiving regular performance and career development reviews.	Not	All employees receive this feedback based on regular performance and career development reviews
Diversity and equal opportunity			
LA13	Composition of governance bodies and breakdown of employees per category according to gender, age group, minority group membership, and other indicators of diversity.	Not	Not reported
LA14	Ratio of basic salary of men to women by employee category, by significant locations of operation	Not	Not reported
Performance Indicator			
Performance Indicator	**Description**	**Reported 2012**	**Cross-reference/Direct answer 2012**
Investment and procurement action			
HR1	Percentage and total number of significant investment agreements and contracts that include human rights clauses or that have undergone human rights screening.	Not	CSR approach reports on policy, but not on percentage of suppliers, contractors and other business partners.
HR2	Percentage of significant suppliers, contractors and other business partners that have undergone screening on human rights and actions taken.	Partially	CSR approach reports on policy, but not on percentage of suppliers, contractors and other business partners.

HR3	Total hours of employee training on policies and procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained.	Not	Report by the Supervisory Board - CSR chapter - Society & markets, Environment (In addition, safety and environmental criteria are part of the risk matrix used for portfolio investments)
Non-discrimination			
HR4	Total number of incidents of discrimination and actions taken.	Fully	In the Netherlands there is a special committee where staff can confidentially address complaints related to sexual intimidation, discrimination or aggressive behavior. In Germany, a formal compliance officer is installed. No record of complaints for 2012.
Freedom of association and collective bargaining			
HR5	Operations and significant suppliers identified in which the right to exercise freedom of association and collective bargaining may be at significant risk, and actions taken to support these rights.	Not	CSR approach reports on policy, but not on percentage of suppliers, contractors and other business partners.
Child labor			
HR6	Operations and significant suppliers identified as having significant risk for incidents of child labor, and measures taken to contribute to the elimination of child labor.	Not	CSR approach reports on policy, but not on percentage of suppliers, contractors and other business partners.
Forced and compulsory labor			
HR7	Operations and significant suppliers identified as having significant risk for incidents of forced or compulsory labor, and measures to contribute to the elimination of forced or compulsory labor.	Not	CSR approach reports on policy, but not on percentage of suppliers, contractors and other business partners.
Security practices			
HR8	Percentage of security personnel trained in the organisation's policies or procedures concerning aspects of human rights that are relevant to operations.	Not	Not material to TenneT (TenneT operates only in the Netherlands and Germany according to national and EU law requirements)
Indigenous rights			
HR9	Total number of incidents of violations involving rights of indigenous people and actions taken.	Not	Not material to TenneT (TenneT operates only in the Netherlands and Germany according to national and EU law requirements)
Assessment			
HR 10	Percentage and total number of operations that have been subject to human rights reviews and/or impact assessments	Not	Not material to TenneT (TenneT operates only in the Netherlands and Germany according to national and EU law requirements)
Remediation			
HR 11	Number of grievances related to human rights filed, addressed and resolved through formal grievance mechanisms	Not	Not reported.

Social: Society			
Performance Indicator	**Description**	**Reported 2012**	**Cross-reference/Direct answer 2012**
Community			
SO1	Percentage of operations with implemented local community engagement, impact assessments and development programs.	Fully	CSR chapter Society & markets, Environment
SO9	Operations with significant potential or actual negative impacts on local communities	Fully	CSR chapter Society & markets, Environment
SO10	Prevention and mitigation measures implemented in operations with significant potential or actual negative impacts on local communities	Fully	CSR chapter Society & markets, Environment
EU22	Number of people physically or economically displaced and compensation, broken down by type of project.	Not	Not applicable to TenneT
Corruption			
SO2	Percentage and total number of business units analysed for risks related to corruption.	Not	TenneT executes no structural anti-corruption reviews, as yet (policy is currently in development)
SO3	Percentage of employees trained in organisation's anti-corruption policies and procedures.	Not	Staff is not structurally trained, however TenneT has an integrity policy in place which is further detailed in company codes in the Netherlands and Germany
SO4	Actions taken in response to incidents of corruption.	Not	Not reported
Public policy			
SO5	Public policy positions and participation in public policy development and lobbying.	Fully	Financial Report - Innovation and CSR, Risk management and risk factors
SO6	Total value of financial and in-kind contributions to political parties, politicians, and related institutions by country.	Not	TenneT does not support political parties and related institutes
Anti-competitive behavior			
SO7	Total number of legal actions for anti-competitive behavior, anti-trust, and monopoly practices and their outcomes.	Not	Not applicable to TenneT in its role as a TSO
Compliance			
SO8	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations.	Not	Not reported
Social: Product Responsibility			
Performance Indicator	**Description**	**Reported 2012**	**Cross-reference/Direct answer 2012**
Customer health and safety			
PR1	Life cycle stages in which health and safety impacts of products and services are assessed for improvement, and percentage of significant products and services categories subject to such procedures.	Fully	Report by the Supervisory Board - CSR chapter - Society & markets, Environment (In addition, safety and environmental criteria are part of the risk matrix used for portfolio investments)
PR2	Total number of incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts of products and services during their life cycle, by type of outcomes.	Not	Not reported

	Number of injuries and fatalities to the public involving company assets, including legal judgments, settlements and pending legal cases of diseases.	Fully	Security and crisis management, external safety
Product and service labeling			
PR3	Type of product and service information required by procedures, and percentage of significant products and services subject to such information requirements.	Partially	Profile, Risk management and internal control
PR4	Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labeling, by type of outcomes.	Fully	No incidents reported for 2012
PR5	Practices related to customer satisfaction, including results of surveys measuring customer satisfaction.	Fully	Consolidated key figures, Report by the CEO
PR6	Programs for adherence to laws, standards, and voluntary codes related to marketing communications, including advertising, promotion, and sponsorship.	Not	Not applicable to TenneT
Marketing communications			
PR7	Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship by type of outcomes.	Not	Not reported
Customer privacy			
PR8	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data.	Fully	No substantiated complaints reported for 2012
Compliance			
PR9	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services.	Fully	TenneT did not receive significant fines for non-compliance
Access			
EU26	Percentage of population unserved in licensed distribution or service areas.	Not	No unserved areas (in principle any energy supplier can get access to the high-voltage network as defined by law in both the Netherlands and Germany)
EU27	Number of residential disconnections for non-payment, broken down by duration of disconnection and by regulatory regime.	Not	Not applicable to TenneT (TenneT does not directly supply to residential households)
EU28	Power outage frequency.	Fully	Consolidated key figures Reported System Average Interruption Frequency Index (SAIFI): • 220/380 kV: 0,000 • 110/150 kV: 0,026
EU29	Average power outage duration.	Not	Not reported
EU30	Average plant availability factor by energy source and by regulatory regime.	Not	Not applicable to TenneT

Disclaimer

'We', 'TenneT', 'TenneT Holding', "the Group', 'the company' or similar expressions are used in this report as a synonym for TenneT Holding B.V. and its subsidiaries.

Parts of this report contain prospective information. These parts – without exceptions – may include unqualified statements on future operating results, government measures, the impact of other regulatory measures on all activities of TenneT as a whole, TenneT's shares and those of its subsidiaries and joint ventures in existing and new markets, industrial and macro economic trends and TenneT's performance in these. Such statements are preceded or followed by or contain words such as 'believes', 'expects', 'anticipates' or similar expressions. These prospective statements are based on the current assumptions concerning future activities and are subject to known and unknown factors, and other uncertainties, many of which are beyond TenneT's control, so that future actual results may differ significantly from these statements.

All financial information in this consolidated integrated annual report is reported in millions of euro. As a result, small rounding differences may occur.

A pdf version of this Annual Report is available at www.tennet.eu. This website allows users to search the contents of the Annual Report according to their personal interests.

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TenneT
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