

Annual Report TenneT 2011





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01 Profile



TenneT is Europe's first cross-border electricity grid operator. We rank among Europe's top 5 electricity transmission system operators, with 20,000 kilometres of high-voltage lines and 36 million end-users in the Netherlands and Germany. The State of the Netherlands holds the entire issued share capital of TenneT Holding B.V.

TenneT Holding's head office is located at Arnhem in the Netherlands.

TenneT TSO GmbH's main office is located at Bayreuth in Germany.



What we do

As an electricity transmission system operator (TSO), we have a duty to assure the continuity of electricity supply in the Netherlands and a substantial part of Germany 24 hours a day, 7 days a week. Our core business in both countries is regulated and consists of providing transmission and system services, constructing, maintaining and operating transmission grids and continuously monitoring and maintaining the balance between electricity supply and demand in our Dutch and German grids. We carry out these activities under the terms of legislation in the Netherlands and Germany. Regulatory authorities oversee our compliance with these terms. 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 and TenneT Offshore GmbH.

Besides its regulated activities TenneT auctions cross-border transmission capacity and develops and manages interconnectors. TenneT holds shares in a number of northwest European energy exchanges, including APX-ENDEX. 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, through its wholly-owned subsidiary NOVEC B.V., further manages part of the infrastructure required to send and receive broadcasting signals.

Our challenges

TenneT strives to provide optimum service in the interest of an efficiently functioning electricity market in the Netherlands and Germany. Our objective is to ensure the highest security of supply of electricity at the lowest possible prices while obtaining an adequate return for our shareholder. We adhere to corporate governance codes and take measures to minimise our footprint.

Our customers include electricity producers and traders. We serve all consumers of electricity. One of our main objectives is to achieve and maintain a high level of customer satisfaction. The company adheres to the policies laid down by the Ministry of Economic Affairs, Agriculture and Innovation.

Our grid investments are driven in part by the growing role of the next generation of renewables in Europe, including energy brought in from offshore wind farms in the North Sea and over cables connecting to hydropower in Norway. New connections enable TenneT to open up large, new energy sources for Europe-wide consumption. At the same time, we have to assure the existence of ways of storing the newly produced sustainable energy on a large scale. These are logical next steps towards the creation of a sustainable European electricity market.

Our organisation strives to serve as a linking pin, connecting producers and consumers with each other, and to maintain a permanent dialogue with the community at large.



Our way of working

TenneT operates in accordance with two core values: quality and integrity. Together with our corporate strategy, our Company Code defines how we work, referred to as the 'TenneT Way of Working'. It defines our objectives and explains how we pursue them.

Quality

TenneT is committed to achieving operational excellence. We see this as a necessary condition for providing efficient, high-quality transmission and system services with 24/7 security of supply at value-for-money prices for all our stakeholders. TenneT is also making a significant contribution to the creation of an integrated energy market in northwest Europe.

Integrity

TenneT strives to operate consistently and reliably. We believe in straightforward communication. TenneT is independent and provides all parties with guaranteed, non-discriminatory access to its transmission grid. We operate in a fair and predictable manner to ensure that our stakeholders can always rely on us.

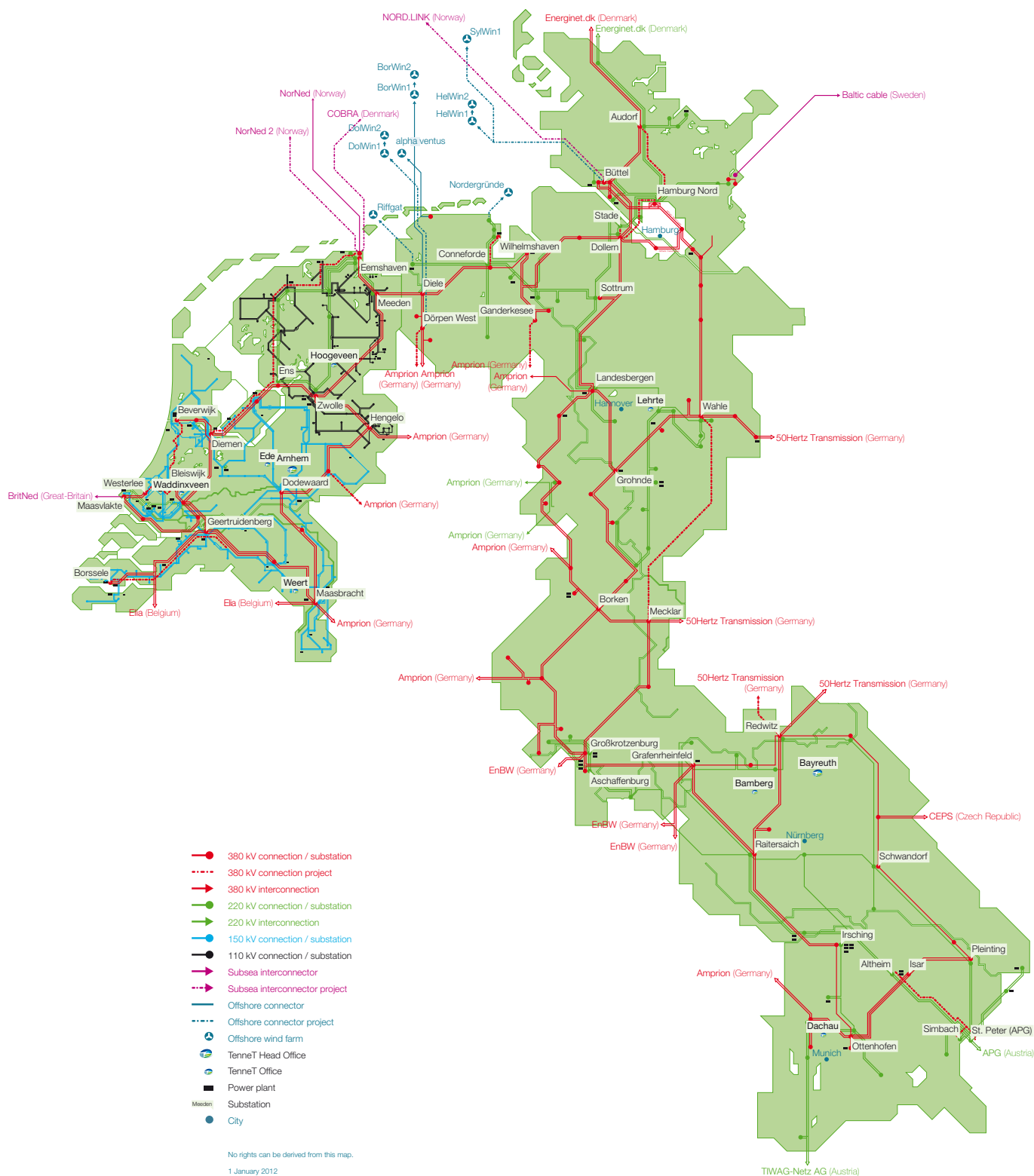
Additional priorities

Besides our core values of quality and integrity, we give high priority to safety and efficiency and have made these matters part of the 'TenneT Way of Working'. In the coming years, TenneT will devote extra attention to safety and efficiency in its day-to-day operations.

Compliance

Compliance officers monitor our adherence to our Company Code and Rules of Conduct in the Netherlands and in Germany. The compliance officer reports to the Management Board. The whistleblower's procedure is another tool for monitoring integrity within the company. Employees in the Netherlands can report irregularities to a confidential adviser, while in Germany the compliance officer also acts as the contact person for questions of this nature. Our whistleblower's procedure can be found on our corporate website.

02 Grid map



03 Consolidated key figures

Group financial data (EUR million)

	2011	2010	2009
Revenue *)	1,525.2	1,322.5	543.4
EBIT	356.9	158.8	136.4
Profit after tax allocated to shareholder	198.4	76.2	72.1
Interest-bearing debt	2,591.4	2,426.4	1,379.3
Equity	2,048.8	1,300.1	727.6
Total assets	8,569.8	7,054.4	3,570.0

Group KPIs

	2011	2010	2009
Return on Invested Capital (pre-tax) ¹⁾	8.8%	10.6%	3.2%
FFO/net debt ¹⁾	17.9%	19.7%	5.2%
EBIT growth ¹⁾	8.1%	446.5%	-46.1%

Employees & customers

	2011	2010	2009
Number of employees (excluding external personnel) in FTEs	1,985	1,879	934
Number of external personnel in FTEs	254	266	337
Sickness leave (%)	2.5	2.8	3.2
Employee satisfaction	7.7	7.8	7.6
Customer satisfaction	n.a.	7.2	7.1

¹⁾ From 2010, the figures include our German activities.

Technical data					
	2011	2011	2010	2010	2009
	NL	D	NL	D	NL
Circuit lengths (in kilometres)					
450 kV DC ²⁾	420	n.a.	290	n.a.	290
380 kV	2,099	5,747	2,088	5,744	2,033
220 kV	693	4,845	670	4,844	653
150 kV	4,454	n.a.	3,987	n.a.	4,089
110 kV	2,164	100	2,084	100	1,944
Total circuit length (in kilometres)	9,700	10,692	9,119	10,688	9,009
Substations					
380 kV	24	64	23	61	22
220 kV	12	51	12	54	12
150 kV	177	n.a.	148	n.a.	147
110 kV	101	6	99	5	98
Total amount of substations	314	121	282	120	279
Imports (GWh)	20,468	52,792	18,583	46,808	15,455
Exports (GWh)	11,834	40,603	12,808	40,691	10,563
220/380 kV grid data:					
• Interruptions	-	-	4	1	-
• Energy not supplied (MWh) ³⁾	-	-	53	0.8	-
110/150 kV grid data:					
• Interruptions	18	n.a.	10	n.a.	16
• Energy not supplied (MWh) ³⁾	372	n.a.	879	n.a.	1,043

1) For definitions, refer to Abbreviations, definitions and ratios.

2) This concerns the NorNed cable and the BritNed cable. The NorNed cable is a HVDC connection from Eemshaven (Netherlands) to Feda (Norway). The total length of this cable link is 580 km; 290 km is owned by TenneT and the other 290 km is owned by the Norwegian TSO Statnett. The BritNed cable is a HVDC connection from Rotterdam (Netherlands) to Isle of Grain (Great Britain). The total length of this cable link is 260 km; 130 km is owned by TenneT and the other 130 km is owned by National Grid.

3) 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).



04 Report by the CEO



2011 was an important year in the further development of TenneT, one with major changes. Our grids in the Netherlands and Germany were strengthened and enlarged on account of the growing demand and the changing production environment. A significant development in this setting was the nuclear power phase-out in Germany, which made heavy demands on our technical, operational and financial capabilities to create new offshore power lines for large wind farms in the North Sea. Engineering accomplishments in the year under review included the further development of the Wintrack pylon and long underground cable routes. Financially we achieved a positive result and our investment capability increased. Completion of the internal integration of the Netherlands and Germany has created an increasingly stronger and more efficiently operating company. Through these developments we are pressing ahead on implementing our long-term strategy.

Our strategy is aimed at further European market integration. We want to reinforce and expand our position as a leading European TSO. Our objective is to offer high security of supply at the most efficient prices possible, taking into account our available capital. Another focus is to facilitate a sustainable future. We are cooperating closely with our shareholder to fulfil these ambitions. In 2011, we made some essential steps in the development of our strategy.

Working on maintaining high security of supply

The TenneT grid provides a very high degree of reliability and quality, both in the Netherlands and in Germany. Compared with other countries we have few power interruptions and this makes our

grids among the best in the world. With a view to the future, we need to invest substantially in further grid expansions. More than 300 projects are under preparation or in progress in the Netherlands, including four large new 380 kV high-voltage lines. In the highly urbanised western part of the Netherlands known as the Randstad, we began building one of these lines last year, and this will structurally increase security of supply in this economically important region. Preparations are underway in Germany for nine new heavy-duty 380 kV high-voltage lines that will form a crucial element of the national energy supply. We are conducting an intensive dialogue with politicians and the community at large on the best way of building these essential lines.

Working efficiently

Through all of these investments TenneT strives to work as efficiently as possible. It is for that reason that we are supporting the development of the northwest European energy market, because it will deliver real savings and higher quality for consumers. In 2011, we began sharing reserve capacity between the Netherlands and Germany. TenneT has also joined the German initiative for exchanging imbalance internationally. These two measures are estimated to produce annual savings of approximately forty million euro, which will directly benefit residential and business consumers. We are additionally achieving economies of scale in our procurement processes.

TenneT also wants to work as efficiently as possible when carrying out new-build projects. Last year, the regulator declared various Dutch investments efficient. These included a new high-voltage substation at Bleiswijk and a power line in the north of the country. This acknowledgement shows that when performing work of this kind we are a high-quality electricity transmission company in northwest Europe and are working more and more efficiently.

In order to carry out the sizeable investments necessary for the future, TenneT is devoting attention to the development of tariffs. Our challenging investment portfolio requires appropriate regulation and an adequate return on investment to ensure continuing access to the capital markets.

Making European market integration a precondition

TenneT is focused on the further development and integration of the northwest European market and is playing a front-running role in this regard. We believe that an integrated European market is a precondition on the road towards a clean, reliable and sustainable supply of energy. In recent years, TenneT has made big steps in the role of initiator. In 2011, for example, the BritNed cable was successfully put into service. This direct current power line has a capacity equivalent to the consumption of a city with one million inhabitants. The interconnection will structurally increase possibilities for importing and exporting electricity between the European mainland and Great Britain. The new line fits in with TenneT's vision of acting as a European power hub. From the baseline of that idea, we are continuing to work with complete conviction on developing more new interconnections, for example with renewable sources in Scandinavia.

Besides physical expansions TenneT has taken some essential steps towards improving cross-border trade. These include the launch of the international intraday market for trading during the day. This is important for facilitating the fluctuating generation of ever-increasing renewable energy. These trading possibilities will be increased still further in the coming period. The consolidation of energy exchanges also plays a pivotal role in reinforcing the international markets. As a major shareholder TenneT is bringing about the international growth of the APX energy exchange in cooperation with other parties. This enables the rapid initiation of market changes and improvements. Record volumes and growing turnovers are proof that this approach works.

Facilitating a sustainable future

On the road towards a CO₂-free energy supply, TenneT is contributing significantly to the opening up of the North Sea as a source of wind energy. In Germany, TenneT is constructing new offshore power lines that – in terms of capacity – equal the energy supply of five million households. These lines are being built in association with the industry and are characterised by a high degree of innovation with forward-looking technology. Offshore grids of this size have never before been built on this scale, making TenneT one of the global leaders in this field.

The transition to a sustainable supply of energy is in full swing in Germany because of the government's decision to discard nuclear energy as a source of power in the near future. We have already stated that this rapid development poses challenges that we must address jointly and responsibly. Therefore, TenneT announced in 2011 that the commissioning of further direct current power lines is not possible under current conditions and at the current pace. In the meantime a broadly-based dialogue has been started. While this is in progress we will press forward on carrying out projects already agreed. TenneT has delivered the first two offshore projects and is working flat out on creating seven new connections.

Ensuring financial stability and reliability

TenneT wants to play a leading and initiating role in developing the international electricity grid. Access to financing is extremely important in this respect. TenneT is a reliable company that achieves good results, also for its shareholder. At TenneT we have a clear policy directed towards long-term financial stability. The increase in capital provided by our shareholder last year was an essential condition for carrying out our ambitious investment programme in the

Netherlands while at the same time ensuring financial stability. Last year the Dutch Energy Report stated that in due course the Dutch State no longer necessarily needs to remain TenneT's sole shareholder. In the light of TenneT's future capital requirement for the essential development of the grid, this is a logical step that the shareholder will investigate further. The objective is to keep a good balance between continued high security of supply and financially healthy operations.

Cultivating workforce expertise and dedication

As an electricity transmission company, we are aware of our important task in society, one that our employees carry out with passion and professionalism. They are our company's most valuable asset and their expertise and dedication help to assure TenneT's functioning and further growth.

In the past period there has been a relative turnabout in our work from a largely engineering orientation to a more innovative and socially-minded way of operating. We support our workforce by ensuring good working conditions through care for their safety and health and by providing opportunities for professional development.

TenneT is on track. In the coming period it will be up to us to continue expanding and strengthening the grid in the public interest. Our challenges are further market integration and a responsible approach towards the ongoing implementation of renewable energy. We will press ahead at full power on this course.



Mel Kroon
CEO TenneT



05 Mission, vision and strategy

Taking power further

TenneT is Europe's first cross-border grid operator. In today's liberalised energy market, we are an important facilitator. We are continuing to develop a broad range of transmission and system services, while promoting the efficiency of the market and the transition to a sustainable energy supply. Our investments support the efficient operation of the Dutch and German electricity markets.

We want to be a pivotal TSO in the further development of the northwest European energy market, guaranteeing a consistently high security of supply and creating a level playing field with electricity prices that are equal and stable. We intend to achieve this by creating one strong northwest European wholesale market without internal borders. TenneT has already acquired an excellent position in the Dutch, German and the northwest European markets and will proactively pursue further development, taking specific steps together with other TSOs, regulators and governments.



TenneT is actively contributing to the integration of renewable energy, both onshore and offshore. We focus on maintaining a high-quality, reliable electricity grid – above ground, below ground, on land and at sea – and on combining this with superior performance and an adequate return on investment. In practical terms, this requires us to invest heavily in expanding transmission capacity. The demand for capacity continues to rise, particularly because of the increasing distances between power supply and demand hubs.

Our mission is to provide continuous electricity transmission capacity 24 hours a day, 7 days a week.

TenneT aims to deliver the following for its stakeholders:

Society

- efficient, high-quality transmission and system services and 24/7 security of supply
- a significant contribution to the creation of an integrated energy market in northwest Europe
- investments that facilitate attainment of society's sustainable energy objectives.

Customers

- a service offering with an excellent price/quality ratio
- non-discriminatory access by all parties to TenneT's transmission grid.

Providers of capital

- an adequate and stable return on investment commensurate with the company's risk profile.

Employees

- an attractive and challenging working environment
- good prospects for personal growth and career advancement
- competitive benefits.





Strategy

From periphery to power hub

TenneT's ambition is to raise its development as a power hub in the northwest European market to a higher level and to make a distinctive contribution by becoming one of Europe's pivotal grid operators. We want to achieve this through:

Delivering security of supply

Keeping our track record in reliability and security of supply at the highest level by continuously maintaining and strengthening the quality of our transmission grid, and by optimising grid access for all producers and consumers.

Maintaining fair system and transmission tariffs

Improving our current operational performance by leveraging the synergy potential of a combined international TSO to secure value-for-money tariffs for our shareholders and customers, in combination with maximum benefit for society.

Facilitating the environmental agenda

Responding to society's goals to achieve a more sustainable energy supply, by connecting to renewables and minimising our environmental footprint.

European market integration

Stimulating the further integration of the European market by investing in connecting markets, both by physical interconnections and market coupling, driven by partnerships with TSOs across national borders, so as to reduce electricity price differences and volatility.

Creating shareholder value

Providing an adequate return for our shareholder and creating attractive opportunities for further investments.

Society and the economy rely heavily on a secure supply of electricity. As an independent TSO, TenneT has a responsibility towards people, environment and society and focuses on innovation. This is reflected in our corporate core values of quality and integrity. In addition, TenneT has a focus on safety and efficiency. As they are important contributory factors to our core values, TenneT will devote extra attention to safety and efficiency in its everyday work and processes.

06 Report by the Management Board



From left to right (standing): Mel Kroon and Martin Fuchs.

From left to right (sitting): Eelco de Boer, Ben Voorhorst and Lex Hartman.

Key events in 2011



EIB loan agreement

In January 2011, TenneT signed a loan agreement with the European Investment Bank (EIB) with a principal amount of EUR 150 million with an option (subject to further credit approval) to extend an additional EUR 300 million to finance construction and operation of the new extra high-voltage electricity transmission ring, the 'Randstad 380 kV'.

Integration of intraday markets

In February 2011, APX-ENDEX, Belpex, Elia and TenneT announced the integration of the Belgian and Dutch intraday markets by rolling out an implicit cross-border allocation mechanism for Dutch-Belgian intraday capacity. Integration with the Nordic intraday markets through the NorNed cable and through the Dutch/German and German/Danish borders is planned in 2012. Development of intraday markets has been assigned high priority due to increased renewable generation sources, which has pushed up demand for trading close to the time of delivery.

Senior unsecured bonds issuance

In February 2011, TenneT issued and successfully placed EUR 1 billion senior unsecured bonds. The agreed issuance comprised two tranches of EUR 500 million each and maturities of 7 and 12 years, respectively. There was significant investor interest for the transaction, which, in aggregate, was approximately seven times oversubscribed. The bonds are listed on the Amsterdam Stock Exchange. Proceeds were used mainly to redeem short-term debt and to finance TenneT's capital expenditure programme.

Nuclear power phase-out in Germany

Following the Fukushima Daiichi nuclear disaster in Japan, the German government announced the *Atomausstieg* (nuclear phase-out) in March 2011. Eight nuclear power plants with a total capacity of 8 GW have already been closed. The remaining nine will gradually be shut down between now and 2022. The biggest challenge for TenneT and other German TSOs will be to manage the voltage level and to transmit a sufficient level of electricity to the areas where nuclear generation has been ended. To compensate for the loss of nuclear power, the German government is pursuing a transition to renewable energy, stressing the importance of offshore wind farms. TenneT awarded another three new offshore grid connections in 2011. When they come on stream TenneT will be able to integrate more than 5 GW of renewable energy generated offshore in the German grid.

BritNed goes in operation

The BritNed cable, the first submarine electricity cable between the Netherlands and Great Britain, successfully went into service in April 2011. The 260-kilometre 1,000 MW high-voltage direct current line transmits power in both directions. The volume of electricity transmitted is geared to supply and demand patterns and price differentials between the two power markets. The new submarine cable benefits the security and diversity of supply in both countries. The interconnector will also help to integrate European markets, providing greater import and export opportunities, and allow integration of electricity generated by wind farms on the European mainland and in Great Britain in the European and British grids.

Integration of Stedin transmission grid

TenneT integrated the Stedin grid as the final step in its integration of 110 and 150 kV transmission grids in the Netherlands in April 2011. The integration is the result of the Independent Grid Administration Act (WON) that the Upper House of the Dutch Parliament passed in November 2006 and creates one strong and independent national high-voltage transmission grid.



Launch of innovative cable project

In June 2011, TenneT began building a 20-kilometre underground 'highway' to transmit electricity across the Randstad, the highly urbanised western part of the Netherlands. The construction of a 20-kilometre cable link at the highest voltage level (380 kV) is highly innovative and makes the Netherlands a global leader in the underground construction of lines of this type. The Netherlands is the only country in the world where cable links of this length and capacity have been installed below ground in a grid with such high voltages. For that reason, the project is being closely monitored and supervised by policymakers, researchers and the electricity sector.

Pooling of electricity reserves

TenneT announced in June 2011 that electricity reserves can be pooled and called up in such circumstances as outages at Dutch power stations. This exchange of reserves was made possible by TenneT's acquisition of transpower and will result in cost savings that will be passed on to residential and industrial consumers.

Commissioning of crucial new station and high-voltage line in the north

New transmission capacity is needed in the north of the Netherlands to connect new electricity production plants and transmit their output. A crucially important new high-voltage station called Eemshaven-Oudeschip was put into service in June 2011. The station will provide access to the future Eemshaven production capacity. TenneT also upgraded the 90-kilometre long 220 kV line between Zwolle and Groningen to enlarge transmission capacity.

Adjustments needed to offshore regulatory framework

The German Energy Act imposes on TenneT a legal duty to connect offshore wind farms in Germany. However, TenneT felt compelled to write a letter to the German Federal Chancellery, the Federal Ministry of Economics and the Federal Environment Ministry in November 2011, stating that the commissioning of further direct current power lines was not possible under current conditions and at the current pace. General conditions will require improvement if additional offshore wind farms are to be connected, because the offshore partners and TenneT have exhausted their capability to establish connections. Reasons include a widespread shortage of human, material and financial resources at suppliers and at TenneT. Recent developments in offshore projects have underscored this warning signal. Moreover, the creation of new onshore transmission capacity is lagging behind but needs to keep in step with offshore developments. This requires fundamental changes to the regulatory framework. With its *Atomausstieg*, the German government will discard nuclear energy as a source of power in the near future and fully transition to renewable energy. Without the

mentioned changes to the regulatory framework, this *Energiewende* will not be possible. Therefore, TenneT has asked the German federal government for a broad discussion of the amendments needed to the regulatory framework and connection procedures with all offshore partners and with the Federal Network Agency (*Bundesnetzagentur*).

Reduction of permissible return on grid investments

In November 2011, the Federal Network Agency in Germany reduced the permissible pre-tax return on grid investments from 9.29% to 9.05%. This decision was preceded by extensive discussions with the German grid operators and the energy sector as a whole. Initially, the regulator announced its intention to reduce the return to 8.20%, but that plan was met by powerful objections from the four German TSOs. A cut in the return by a full percentage point would have sent a highly unfavourable message to equity investors and subsequently endangered investments in infrastructure for energy transition. The new return percentages will take effect on 1 January 2014 and will remain in force until 31 December 2018.

Dutch Lower House approves capital injection

As part of the Interim Budget Report, the Dutch Lower House approved a EUR 600 million equity capital increase to be provided to TenneT. Following the ratification by the Dutch Upper House, TenneT received the first tranche of EUR 300 million in December 2011. The second tranche of EUR 300 million has been committed to be paid in the first half of 2012. This capital increase serves to safeguard TenneT's long-term financial stability.

Financial report

When comparing the 2011, 2010 and the 2009 results, it should be noted that the figures for 2011 reflect twelve months whereas 2010 data include ten months of our activities in Germany, while the 2009 figures do not include any activities in Germany at all.

Group financial data (EUR million)			
	2011	2010	2009
Revenue	1,525.2	1,322.5	543.4
EBIT	356.9	158.8	136.4
Profit after tax allocated to shareholder	198.4	76.2	72.1
Total assets	8,569.8	7,054.4	3,570.0

Revenue

In 2011, TenneT's consolidated revenue increased with 15% to EUR 1,525 million (2010: EUR 1,322 million). Other income in 2011 amounted to EUR 16 million (2010: EUR 17 million) thus bringing total income of 2011 to EUR 1,541 million (2010: EUR 1,339 million).

TSO Germany

In 2011, the revenue in TenneT Germany increased to EUR 829 million (2010: EUR 773 million). This increase is mainly caused by the fact that the figures for 2011 reflect twelve months whereas 2010 data include ten months.

TSO Netherlands

In 2011, TenneT Netherlands' net revenue increased with EUR 148 million to EUR 658 million (2010: EUR 510 million).

TenneT lodged an appeal with the Netherlands Trade and Industry Appeals Tribunal (CBb) to contest the Method Decision for the fourth regulatory period (2008-2010). In June 2010, the Tribunal ruled that TenneT's appeal was valid and that the Method Decision had to be reversed. TenneT won the appeal in recognition of:

- additional indirect costs incurred by TenneT after taking over day-to-day management of the 110 and 150 kV high-voltage grids
- additional costs involved in the transfer of management of the above grids.

The final revised Method Decision for the fourth regulatory period resulted in an extra revenue of EUR 116 million for TenneT in 2011 of which EUR 82 million relates to a reimbursement of costs for the period 2008-2010 and EUR 34 million relates for reimbursement of costs of 2011. The other part of the increase in revenue of EUR 32 million is mainly related to extra revenue in connection with capital expenditures for the exceptional investments of the locations Bleiswijk and Eemshaven and the increase due to higher energy and capacity expenses of which TenneT will be reimbursed in future tariffs.

Other

The revenue for the segment Other of EUR 38 million is in line with the reported 2010 revenue of EUR 39 million.

Operating profit

In 2011, TenneT's consolidated operating profit increased by 126% to EUR 357 million (2010: EUR 158 million).

TSO Germany

TenneT Germany realised an operating profit of EUR 152 million (2010: EUR 202 million).

The revenue increased with EUR 56 million to EUR 829 million (2010: EUR 773 million) while other income decreased with EUR 2 million from 2011 to 2010. Related costs increased with EUR 104 million to EUR 681 million (2010: EUR 577 million), of which EUR 90 million are due to the fact that the figures for 2011 reflect twelve months whereas 2010 data include ten months. The other increase of EUR 14 million is mainly related to an increase of depreciation.

TSO Netherlands

In 2011, TenneT Netherlands realised an operating profit of EUR 209 million (2010: operating loss of EUR 41 million). This increase

in operating profit of EUR 250 million is mainly related to the EUR 148 million of higher revenues in 2011, the impairment of EUR 134 million on the extra high-voltage grid in 2010, partly offset by costs which TenneT has to pay for the use of the cross-border lease grids of Stedin and Liander (EUR 25 million) and some other small differences amounting to EUR 7 million.

The result of 2010 was heavily influenced by the impairment charge related to the extra high-voltage assets of TenneT TSO B.V. of EUR 134 million. On 22 September 2010, the Dutch Office of Energy Regulation (*Energiekamer*) published the Method Decision for the fifth regulatory period. Under this new Method, among other things, extra high-voltage assets were declared partly (43%) inefficient. This inefficiency assumed by the Dutch regulator is expected to be reflected in reduced transport tariffs in future years. Where in the past these assets have not been rated as inefficient whilst lacking future options for structural efficiency improvements of these assets and taking into account the phasing out of reduced transport tariffs over the remaining economic life (10-15 years), an impairment of EUR 134 million was recognised in 2010.

Profit after tax

The finance result increased to EUR 72 million in 2011 (2010: EUR 43 million) mainly caused by an increase in the amount of debt outstanding. The corporation tax totalled EUR 85 million (2010: EUR 41 million) and amounted to 29.7% of the profit before tax (2010: 34.8%).

TenneT's 2011 profit after tax amounted to EUR 200 million (2010: EUR 77 million) of which EUR 198 million allocated to TenneT Holding's shareholder (2010: EUR 76 million).

Balance sheet

At the end of 2011, TenneT's consolidated balance assets amounted to EUR 8.6 billion (2010: EUR 7.1 billion). The main drivers of this increase are an increase of the tangible fixed assets of EUR 0.9 billion and an increased cash position (EUR 0.6 billion of APX cash and cash equivalents are included in 'held for sale'). The increase on the liability and equity side of the balance sheet relates to an increase in equity of EUR 0.7 billion, of which EUR 0.6 billion consisted of extra capital provided by the Dutch State, additional borrowings of EUR 0.3 billion and an increase in other liabilities of EUR 0.5 billion.

The balance sheet total includes items amounting to EUR 1.7 billion (2010: EUR 2.2 billion) relating to assets not at TenneT Group's free disposal. The decrease is mainly caused by the decrease in EEG trade debtors.

'Pro-forma' effect of recognition of regulatory assets and liabilities in Germany

Industry developments

There are a number of developments which have resulted in changes to the ownership structure and financing requirements of TSOs. Traditionally, most TSOs have been predominantly state-owned national or regional enterprises, with little or no dependency on capital markets financing.

However, as the European electricity and gas markets have continued to develop, more and more TSOs are now operating cross-border. In addition, the further transition from conventional to renewable energy sources (such as offshore wind, hydro and solar energy) will require unprecedented amounts of investment from TSOs over the next decade.

In this respect, sound, consistent and transparent financial reporting by these TSOs is of paramount importance to create and maintain investor confidence.

Regulations and current accounting

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 adjusted by the regulator via the tariffs applicable in future periods. However current German accounting practice under IFRS does not take these differences into account as regulatory assets and liabilities and hence in the eyes of the Board of TenneT the current accounting treatment in Germany poses the following significant drawbacks:

- earnings display greater volatility reflecting the inherent limitations of the regulatory system rather than the underlying performance of the TSO
- the obligation to reduce future tariffs or the right to increase these tariffs in future periods is not properly reflected in the balance sheet as a payable or receivable, respectively, but rather is included in shareholders' equity.

Therefore TenneT has requested the International Accounting Standard Board (IASB) to clarify the accounting treatment of regulatory assets and liabilities under International Financial Reporting Standards (IFRS).

Harmonisation and impact

TenneT Netherlands recognises so called regulatory assets and liabilities on its balance sheet (in accordance with the concept of accrual accounting) such that reported revenues are in line with the regulatory revenues allowed for the period, rather than with the amounts actually invoiced during the period. Auction receipts in the Netherlands are not accounted for as revenues, but are recognised as a liability on the balance sheet (in '*Stichting Beheer Doelgelden Landelijk Hoogspanningsnet*').

TenneT Germany is accounting for most of its revenues on the basis of actual invoices sent during the relevant accounting period. No receivables are recognised for amounts for which regulatory revenue compensation is allowed in future periods. Also no accruals are made for amounts that will lead to lower allowed revenues in future periods, such as, for instance, auction receipts. In Germany, auction receipts are booked straight in the profit-and-loss account.

TenneT has investigated the potential effects of bringing the current German accounting practice in line with the Dutch practice.

TenneT estimates that the impact on consolidated EBIT amounted to EUR 3 million negative (reduction to EBIT) in 2011 and EUR 59 million negative in 2010. Furthermore, TenneT estimates that the balance sheet item 'to be settled in tariffs' would have been EUR 147 million higher at 31 December 2011 than currently reported and that the balance sheet item 'auction receipts' would have been EUR 152 million higher at 31 December 2011 than currently stated.

Cash flows

Cash flows (EUR million)			
	2011	2010	2009
Cash flow from operating activities	1,030.0	-139.3	98.0
Cash flows from investing activities	-903.7	-1,249.7	-1,052.2
Cash flows from financing activities	475.9	1,587.4	833.3
Total cash flows	602.2	198.4	-120.9

Cash flows from operating activities amounted to EUR 1,030 million positive (2010: EUR 139 million negative) mainly due to movements in EEG working capital.

Cash flows from investing activities decreased and amounted to EUR 904 million negative (2010: EUR 1,250 million negative). This is mainly the result of the acquisition of the German extra high-voltage grid operator transpower stromübertragungs gmbh in 2010, partly compensated by higher investments in 2011.

Cash flows from financing activities amounted to EUR 476 million positive (2010: EUR 1,587 million positive). In 2010, additional borrowings were needed to fund the acquisition of the German extra high-voltage grid operator transpower stromübertragungs gmbh, resulting in lower cash flows from financing activities in 2011.

Capital expenditures

In 2011, TenneT's tangible fixed assets amounted to EUR 5,091 million (2010: EUR 4,121 million) and mainly comprised of high-voltage infrastructure assets. The 2011 investments predominantly concerned projects aimed at strengthening the national grid infrastructure in both the Netherlands and Germany, projects to connect offshore wind farms with the onshore grid in Germany, as well as the subsea cable link to the United Kingdom.

Financing

TenneT aims to have a capital structure which is in line with 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. TenneT expects to meet obligations through various capital market transactions.

In 2011, the Dutch State committed to inject EUR 600 million of equity, of which EUR 300 million was paid in December 2011. The remaining EUR 300 million will be paid in June 2012. To further strengthen its equity base, TenneT has entered into a partnership with Mitsubishi Corporation by agreeing to sell an equity stake, representing a 49% voting interest in two German offshore high-voltage cable projects, BorWin1 and BorWin2. Mitsubishi's aggregate equity commitment will total EUR 240 million. The transaction is still subject to certain conditions, which are expected to be met before summer 2012. In addition, TenneT and Mitsubishi Corporation signed a letter of intent to partner up in two additional offshore grid connections, HelWin2 and DolWin2. Mitsubishi's expected third-party equity stake would be EUR 340 million. The equity contribution of Mitsubishi would represent 20% of the expected combined expected capital expenditures of approximately EUR 1.7 billion for these two projects.

On the debt side, TenneT issued EUR 1 billion of bonds with maturities of 7 and 12 years. To diversify short-term funding sources and minimise interest expenses, the company also issued commercial paper on a revolving basis under a European commercial paper programme in an amount of several hundred millions of euro, with maturities generally ranging from 1 to 3 months. At the end of 2011, no commercial paper is outstanding. Furthermore, TenneT signed a credit facility with the European Investment Bank in January 2011 with a principal amount of EUR 150 million with an option (subject to credit approval) for an increase of an additional EUR 300 million to finance the Randstad 380 kV project. As of 31 December 2011, no drawings were outstanding. Lastly, TenneT extended and reprised its EUR 1,125 million revolving bank credit facility, maturing August 2016. This facility had no drawings outstanding as of 31 December 2011.

Prospects

TenneT faces a very sizable investment programme, currently estimated to amount to approximately EUR 14 billion for 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 and (ii) offshore wind farms in Germany. As a result, TenneT expects to continue to have a significant need for capital during the coming years.

Onshore, TenneT TSO GmbH expects increasing average transport distances due to increasing infeed of wind energy coupled with the nuclear phase out. In some situations, this leads to capacity, voltage and stability problems on some transmission corridors and ultimately to the need for transmission investments to transport wind energy to the consumption centres. The German Grid Development Plan is currently being analysed by all four German TSOs together, in order to develop a viable grid structure capable of accommodating the most probable development scenarios for the



forthcoming ten years. It is expected to be published for consultation in June 2012.

In TenneT's view, various shortcomings and bottlenecks in the current regulatory framework in both the Netherlands and Germany have been identified which require fundamental changes. TenneT expects favourable changes to the German legislative framework in 2012, including a limitation on the liability of TSOs for financial losses suffered by offshore wind farms resulting from the delay in construction or unavailability of offshore grid connections. Current legislation does not provide sufficient clarity around this issue. In addition, TenneT has initiated public debate with respect to structural changes to the offshore connection regime, relieving TenneT from its sole responsibility to 'build on command' and creating a better manageable, phased approach to offshore grid planning.

TSOs' challenges at European level include the accommodation of the exponential growth in required transport capacity by investing huge 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 investors. A reasonable rate of return within the regulatory framework is required.



Innovation and Corporate Social Responsibility

Innovation

TenneT believes innovation is about successfully exploiting new ideas to create value for the company and society. 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
- creating value for society.

TenneT has greatly stepped up its innovation activities over the past few years. This report includes a selection of recent innovative developments. For a complete overview visit our corporate website.

Market coupling and flow-based approach

Sustained progress has been made on coupling markets following the Memorandum of Understanding signed in June 2007 by Central Western European (CWE) TSOs, power exchanges, regulators and other stakeholders. The Netherlands, Germany, France and Belgium have been coupled since November 2010 and the growing convergence of spot market prices

is visible evidence of its success. Prices in all four countries are identical 60% of the time, while Dutch and German prices are the same nearly 90% of the time. The cross-regional coupling of CWE and the Nordic countries by means of the European Market Coupling Company (EMCC) got underway with equally good results. Since January 2011, the spot prices in and cross-border flows between Finland and France have been coordinated, yielding a socio-economic optimum with the TenneT territories occupying a pivotal position.

The start-up of the BritNed cable on 1 April 2011 means the integration of northwest European (NWE) day-ahead electricity markets (CWE, UK and the Nordics) is well on its way. The volume coupling of the entire NWE region has already been accomplished. However, further improvements are planned to enhance the results.

The NWE Enduring projects for day-ahead (DA) and intraday (ID) markets exemplify these improvements. The NWE Enduring DA project will implement a single price-coupling mechanism for the integrated region of CWE, the Nordics and the UK to replace the present volume coupling. Implementation of a single price-coupling mechanism will enable the market to function even more efficiently. The NWE Enduring ID-project will merge today's patchwork of intraday markets. This will make the entire European intraday liquidity available to every market player in a single system. TenneT is in the driving seat of the NWE-Enduring DA and ID projects.

Implementation of flow-based capacity determination and allocation in the CWE region is another improvement. At present the capacity in the CWE region is calculated using the Available Transfer Capacity (ATC) method. This involves the coordinated calculation of transmission capacities (static values) but still results in bilateral values between pricing areas. This static approach, known as capacity splitting, means the maximum 'safe space' is available between electricity trading markets. The problem is that the available transfer capacity between countries in the electricity network is not static. Transfers between Germany and the Netherlands, for example, are charged both according to direct flows between these two countries and according to some of the flows between, say, France and Germany. Whereas Available Transfer Capacity does not reflect this interdependence, the flow-based method will. Each method impacts in its own specific way on the transmission capacity at the other borders in the CWE region.

The flow-based approach factors in the interdependencies and grid restrictions built into market coupling by taking them into account while allocating cross-border flows in one step. This will improve the physical observation of the grid and benefit the community at large through cross-border trade as reflected by greater price convergence and better prices.

The flow-based approach to market coupling is currently under development in CWE and in Central Eastern Europe (CEE).

Wide Area Monitoring System and Phasor Measurement Units

A Wide Area Monitoring System (WAMS) based on Phasor Measurement Units (PMUs) is being installed mainly to increase security of supply by capturing the dynamic behaviour of the system. The WAMS makes this possible by means of continuous high-speed data measurements in real time. As soon as the system is up and running, a data exchange between the Netherlands and Germany will be established so that the two countries can use each other's PMU data. The next step will be to connect PMUs from other TSOs within ENTSO-E. The system will be fully online by the second quarter of 2012. This project is an example of how strategic goals are being translated into concrete innovation.

Offshore

Three large direct current projects were initiated in 2011 for the connection of offshore wind farms. TenneT also started work on another alternating current grid connection. Working simultaneously on seven projects with tight timeframes and deadlines requires solid coordination and the use of efficient and innovative equipment. With this in mind TenneT and its contractors are constantly developing new technical solutions, e.g. for laying cables on land and in the Waddenzee.

Building blocks

TenneT implemented a 'building blocks' system on 1 April 2011 as part of its 'A La Carte' project. Users can select technical elements ('building blocks') from a menu to help them produce designs for primary, secondary and structural installations at new substations, as well as new bays in existing substations. Using building blocks enhances the speed and efficiency of the design process. TenneT is thus able to achieve significant quality improvements and reduce costs in the design phase by defining as many design details as possible from the outset. The building blocks system also enables nationwide standardisation as all TenneT service providers will be using the same elements.

In the past year TenneT started work on the first projects that will be based on this new approach. The building blocks are periodically reviewed and adjusted, if necessary, based on experiences gained and improvements suggested in the course of the various projects.

Study to integrate 380 kV cables in power transmission system

The Randstad 380 kV project is beginning to take shape. At year-end 2010, the Dutch Council of State gave the green light to construction of the South Ring, the southern section of Randstad 380 kV, a new high-voltage power line running through the Randstad, the highly urbanised western part of the Netherlands. A unique aspect of this project is the length of the underground 380 kV cable sections that will eventually form a high-capacity 'ring'. Underground sections of this length and transmission capacity have not been installed anywhere else in the world.

Based on the limited national and international data available, TenneT performed a risk assessment and concluded that the length of the underground cable section should not exceed 20 kilometres. In practice, this means that up to 240 kilometres of physical single-phase cable can be installed. Following consultation with the Ministry of Economic Affairs, Agriculture and Innovation, TenneT has teamed up with Delft and Eindhoven universities of technology for a multi-year programme of practical research. The research is aimed at describing and understanding the effects of long 380 kV cable sections with high transmission capacities.

Weather-forecasted thermal line rating

It is a challenge to rate the transmission capacity of the electrical circuits to a safe maximum. The available space to the ground usually determines the maximum permissible transmission capacity for the overhead line part of the circuits. Customers benefit if transport capacities based on dynamic rating can be made available to the market.

The current rating calculation is based on a heat balance around the conductor under defined worst-case conditions. Since these fixed conditions are not representative of the actual cooling during most of the year, solutions have to be explored for linking the rating to a more representative cooling. Reliable forecasts would make it possible to calculate the transmission capacity one or two days in advance. Forecasts of wind speed and air temperature and the spread around the expected values can be taken from existing weather forecasting techniques.

After an introduction of the model, there was a discussion of observations from an 18-month pilot project. They revealed a large potential average capacity gain on the pilot line. The probability level of the forecasts was monitored during the pilot project. The model will be finetuned in the next phase of the pilot project.



Corporate Social Responsibility

TenneT regards Corporate Social Responsibility (CSR) as a way of facilitating a socially responsible transition to renewable energy. In its business activities TenneT takes into account the surroundings in which the company operates. We communicate transparently about our operations and about our operational decisions that affect the people, planet and profit dimensions of CSR. We do this in accordance with the 2011 transparency benchmark of the Dutch Ministry of Economic Affairs, Agriculture and Innovation by publishing an annual report on our CSR policy on the website of our regular annual report. In its CSR Annual Report, TenneT publishes an overview of the highlights of the past year and reports on its performance in accordance with the Global Reporting Initiative (GRI) standards.

TenneT applies the following CSR principles:

- CSR is an integral part of our core business and is embedded in the company's regular governance processes to the fullest possible extent
- TenneT adheres wherever possible to national and international standards that encourage social commitment and responsibility
- implementation of CSR policy is a line management responsibility throughout the company
- innovation is essential to respond efficiently and proactively to developments, wishes and interests in society.

TenneT has embedded its CSR policy in a strategic management plan that forms the basis for its annual CSR objectives and Key Performance Indicators (KPIs). The strategic plan has been translated into an operational plan of action.

More information on Corporate Social Responsibility at TenneT can be found on the corporate website.



Human Resources

Number of employees

After several years of strong growth in the Netherlands, the number of employees stabilised in 2011. The number of employees in Germany increased due to the growing number of (offshore) projects. The offshore projects in Germany to harness wind energy are a good example of the teamwork between the two countries. Two offshore projects are managed from Arnhem by Dutch TenneT employees.

At year-end 2011, the organisation employed 2,055 people in total (1,985 FTEs): 1,111 people (1,067 FTEs) in the Netherlands and 944 people (918 FTEs) in Germany. The sick leave rate in 2011 was 3.1% in the Netherlands (2010: 3.1%) and in Germany it was even lower at 2.0% (2010: 2.6%). TenneT believes that a healthy and stimulating working environment paired with active reintegration guidance keeps sick leave relatively low.

Age spread of workforce

	2011	2010
Under 20	1.8%	1.1%
20-30	14.5%	12.4%
30-40	28.5%	28.9%
40-50	29.4%	30.8%
50-60	23.4%	25.0%
Over 60	2.4%	1.8%

Composition of workforce

	2011	2010
Payroll employees by gender		
Male	78.5%	79.6%
Female	21.5%	20.4%
Managerial staff by gender		
Male	85.6%	87.5%
Female	14.4%	12.5%

Smart Working

Pursuing its ambition to improve its internal efficiency and processes, TenneT started investigating in 2011 the possibilities for introducing Smart Working in the Netherlands. Smart Working is an approach to organising work that embraces the principles of freedom, collaboration and focus to create a work environment that drives greater efficiency and effectiveness in achieving performance outcomes. Approximately 110 employees adhered to the Smart Working principles for six months in a pilot study. Results confirmed that Smart Working had a positive effect on teamwork, efficiency/effectiveness and work/life balance and will reduce costs. These results justify further steps to develop Smart Working in 2012. Another aim of TenneT in introducing this way of working is to strengthen its position as an attractive employer.

Training and education

TenneT offers its employees several training and educational programmes. In 2011, TenneT started a joint Leadership Development Programme in which international senior management teams elaborated relevant themes for TenneT. At national level, management development programmes were established for middle management in both countries.

For reasons including recruitment, TenneT has teamed up with three universities of applied sciences – The Hague, HAN, and Windesheim – to facilitate Power Minor. Power Minor is a Dutch training programme for electrical engineering students who are nearing completion of their degree. The aim is to introduce students to all aspects of the energy supply sector in a short time. Under the Young Talent Programme, recent university graduates with degrees in TenneT-specific knowledge areas are trained to become full-fledged TenneT professionals over a period of two years. The programme has a similar aim as the Trainee Programme established in 2008 by TenneT Germany (then transpower). Work experience placements with TenneT Germany offer excellent prospects to young people

starting out in the labour market. Germany's system of 'dual education' combines an apprenticeship at a company with a programme of vocational education.

Committed Power

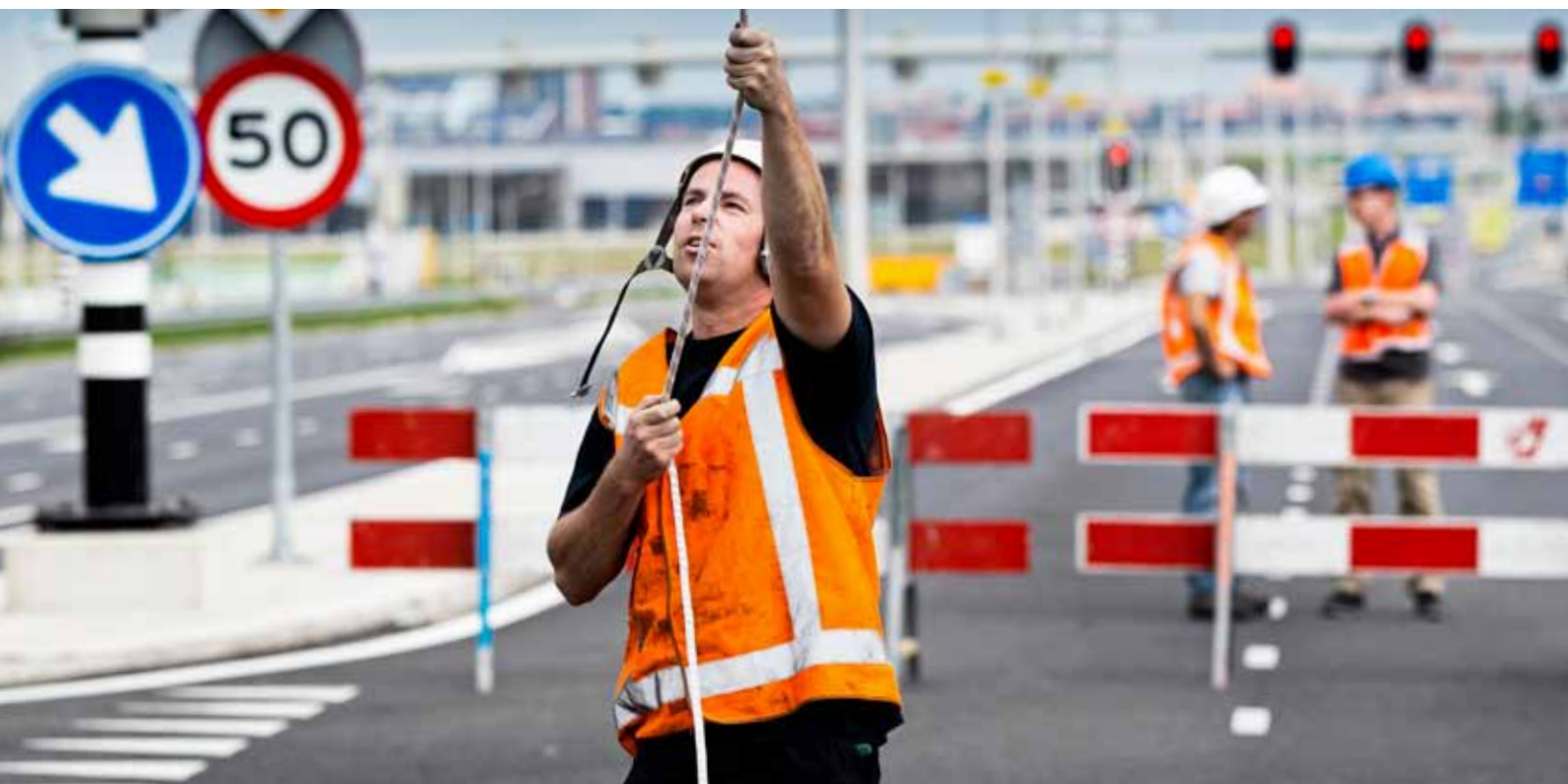
TenneT wants its employees to feel fit and healthy. They are encouraged to pursue an active lifestyle, among other things through the Committed Power programme. This programme is designed to stimulate sports and offers employees the opportunity to train with qualified trainers for a challenging, individual goal in a group setting. In 2011, 550 employees achieved their challenging goals in either Nordic walking, cycling or running. Ice-skating has been added to the programme; in winter of 2011/2012 approximately 50 employees took part in this activity.

Employee Survey

The second joint Employee Survey was conducted in September 2011. The response rate was 75 percent, with an average overall employee satisfaction score of 7.7. This is virtually the same as the previous year and better than the Dutch benchmark of 7.2. However, large differences exist between the Netherlands and Germany. The Dutch score almost equals the benchmark, whereas the 8.5 score for TenneT Germany is considerably higher. Overall, employees value TenneT as their employer of choice thanks to interesting and challenging jobs, good employee benefits, pleasant colleagues and a good workplace atmosphere.

Efficiency

Efficiency and restructuring processes in a growing organisation were other themes addressed by TenneT Netherlands in addition to the integration process. The main programme, the Long Term Efficiency programme, details the new organisational set-up for 2012 for the two largest operational units: Asset Management and Grid Services. The Works Council plays an important advisory role, especially by adopting a critical stance on matters with consequences for employees.



Safety, Health and Environment

One of TenneT's principal objectives has always been to promote the safety awareness of its employees. At the same time TenneT is striving to protect the natural environment and, wherever possible, to make a positive contribution to the living and working environment in which the company operates.

Safety

TenneT formalised its policy on Safety, Health and Environment (SHE) in 2011 when the Management Board signed a Statement of Intent on this subject. Safety-related activities will increasingly be incorporated into our 'Stay tuned. Safety first!' campaign, with the overall aim of effectively and efficiently achieving our SHE target of zero incidents. A number of key processes in the quality cycle (Plan, Do, Check, Act) have been embedded in the organisation and harmonised in Germany and the Netherlands. Dynamic hazard assessments

have been introduced at TenneT's construction sites in Germany, and safety measures are being monitored more thoroughly to ensure safe working practices.

The SHE guidelines were fleshed out by adding requirements applicable to contractors in offshore projects to enhance safety at work. The training of first responders in the offshore service group was expanded considerably to improve the response to emergencies in our offshore activities.

Incidents

TenneT wants to reduce the number of workplace accidents and incidents to zero. Thanks to our proactive approach, the number of lost time incidents was limited to three. The Lost Time Incident Frequency (LTIF) was 0.87. This figure excludes external contractors who, unfortunately, reported 31 lost time incidents (LTIF: 5.68). The key goals for 2012 are to improve the lessons learned from incidents and to reduce the number of incidents at our contractors.

Health

Employee health is high on TenneT's agenda.

Preventive medical examinations

Every four years our employees voluntarily undergo a preventive medical examination that includes a broad screening of their overall health in relation to work load. The next round of examinations for employees in the Netherlands is scheduled for 2012.

Measures to prevent asbestos exposure

TenneT wants to prevent its employees from being exposed to asbestos fibres. In 2011 TenneT established a policy framework to prevent such exposure. We also inventoried the presence of asbestos at high-voltage substations in the Netherlands. Additional targeted investigations will be carried out in 2012. The asbestos risk is lower in Germany, where many structures containing asbestos have already been cleaned up.

Environment

TenneT actively endeavours to protect the environment by operating in a manner designed to minimise environmental harm.

Corporate environmental data reporting will be developed further in 2012. In the Netherlands, TenneT is working with its Service Providers to improve the registration system for sulphur hexafluoride (SF6) gas, which is used as an insulating gas in high-voltage switchgear. This will make it possible to implement a policy on targeted replacements and/or overhauls. In 2011, TenneT organised a major overhaul operation to reduce future SF6 emissions.

Security and crisis management

Security

The principal aim of TenneT's security policy is to protect its organisation and assets against terrorism, crime and vandalism. TenneT set up the TenSec pilot project in the Netherlands to obtain an insight into the cost, complexity and most effective set of measures for assuring proper security of its high-voltage substations. This pilot project was completed during the year under review. Based on the lessons learned from the various measures, TenneT established a security concept with predefined measures for high-voltage stations.

The importance of adequate cyber security is becoming increasingly clear. In 2011, TenneT devoted a great deal of attention to building robust networks in the Netherlands and in Germany. As part of these efforts, TenneT COO Ben Voorhorst joined the recently established Netherlands Cyber Security Council as a representative of the critical private infrastructure sector. The importance of cyber security was highlighted by the DigiNotar incident, where the security of this Dutch commercial certificate authority was breached and resulted in the fraudulent issue of certificates. One of the consequences was that TenneT very quickly had to re-issue new certificates to the energy market.

Crisis management

The first covenants between TenneT and the regional gas/electricity grid operators and security regions were signed in the Netherlands in the year under review. These voluntary agreements provide a sound basis for regional agreements on disaster and crisis management.

TenneT tested its crisis management organisation on several occasions in 2011. In Germany TenneT held desktop drills, while in the Netherlands TenneT held a semi-live drill and participated in various drills by local authorities.

Technical compliance

TenneT attaches great importance to security of supply and to the safety of employees and local residents. Besides displaying integrity in our operations, TenneT is committed to complying with technical norms and standards.

TenneT formally embedded technical compliance in TenneT's management system in 2011. This is a stepping-stone towards the further development of technical compliance within TenneT, but so far it has been introduced only in the Netherlands.



07 Corporate Governance

TenneT has chosen to adhere voluntarily to the Dutch Corporate Governance Code in areas relevant to the company's business, despite being not obliged to do so. The code's principles and best practice provisions provide effective guidelines for how TenneT and its majority subsidiaries should operate.

Corporate Governance structure

TenneT's corporate governance structure comprises the Supervisory Board, the Management Board and the General Meeting of Shareholders. Our external auditor and our internal controls and audits 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 articles of association) and one titular director. TenneT Holding B.V. operates in accordance with the 'four eyes principle' under which members of the Management Board hold 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 embraces regulated and unregulated activities. TenneT Holding B.V. determines the extent to which the activities of unregulated companies are consistent with, and conducive to, the policy and strategy of TenneT as a whole.

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 amendment of the Electricity Act, TenneT is subject to a mitigated statutory two-tier regime ('structure regime'). The Supervisory Board has produced a profile of its composition. The profile takes into account the nature of the company and the required expertise and background of Supervisory Board members. The Supervisory Board aims to achieve diversity in its composition. The 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 according to 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 remuneration policy, the remuneration of individual board members, and the preparation of a remuneration report. The Remuneration and Appointments Committee also establishes criteria for the appointment of new board members and supervises the procedure for appointing them. The Strategic Investments Committee prepares decision-making by 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. Regulations have been drawn up 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) can be viewed 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.

TenneT organises a General Meeting of Shareholders within six months of the end of each fiscal year. Subjects on the agenda include 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 often as the Management Board, Supervisory Board or shareholder deems necessary. Resolutions may also be adopted outside a meeting.

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 in their opinion on the financial statements.

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

The external auditors attend various meetings of the Audit Committee. They also attend the Supervisory Board meeting that discusses the external auditors' report on the financial statements and signs off the financial statements.

Internal controls and audits

Internal controls

Internal controls occur throughout the year at TenneT Netherlands. The emphasis is on checking the allocation/existence of roles in TenneT's financial accounting system, particularly essential authorisations.

TenneT Germany has set up an Internal Control System (ICS) that focuses on the internal control of the financial reporting system. A control framework is in place for all relevant financial processes. The functioning of the ICS is checked each year by an external auditor.

Internal audits

Operational audits form an integral part of TenneT's risk management system. They are an important tool for managing risks effectively. Internal audits provide an insight into how and to what extent the risks that may jeopardise achievement of TenneT's objectives are under control. The purpose of the audits is to provide the organisation with additional assurances of the effectiveness of internal controls of processes.

The Audit department schedules its audits according to a three-year cycle. Ad hoc audits are also performed. The audit schedule is updated annually to reflect the latest operational and strategic risk assessments performed by the

Risk Management department. The Dutch and German audit schedules generally correspond with each other, but each devotes particular attention to local differences and specific processes. The annual plan is submitted to the Management Board and Audit Committee.

The Audit department reports the audit findings to the auditee and to the Management Board. The Supervisory Board is informed annually of the results of the audits performed in the year in question, and of any trends identified by the Audit department. The status of follow-up action is reported periodically.

Deviations from the Corporate Governance Code

The deviations from the Corporate Governance Code remain unchanged compared to last year. 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 our sole shareholder.

II.2.12. The remuneration report of the Supervisory Board is discussed with the General Meeting of Shareholders. Any relevant information is included in the Annual Report.

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 TenneT (this does not apply to TenneT). The third deals with a Supervisory Board member who has temporarily been charged with managing the company in the event of the Management Board being unavailable or incapacitated. This criterion does not necessarily apply to TenneT (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 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 he 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; these provisions do not apply to TenneT.

General Meeting of Shareholders

Many of the best-practice provisions pertaining to the General Meeting of Shareholders do not apply to TenneT. The provisions in question are the following:

- IV.1.1. Non-structure-regime company
- IV.1.2. Voting rights in respect of finance 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 to IV.3.4. 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



08 Risk management and risk factors

Risk management

The Risk Management department reports to the Chief Financial Officer. The department monitors risks on a daily basis, oversees compliance with policies and supervises the organisation-wide reporting process for the main business risks. Together with specialised employees in the risk management field in other parts of the organisation, the Risk Management department provides support to other business units in identifying, monitoring, controlling and reporting risks.

TenneT's internal control and risk management system is based on the international COSO II model (Committee of Sponsoring Organizations of the Treadway Commission).

The following principles underpin the internal control and risk management system developed by TenneT:

- risk management has an independent position within TenneT
- TenneT adopts an integral approach to risk management
- the system manages risks that may jeopardise fulfilment of company objectives.



A key element of TenneT's approach to risk management is that line and staff managers bear primary responsibility for identifying and controlling all risks within their field of activity. The Management Board and the Supervisory Board regularly discuss the functioning of the internal risk management and control framework.

Risk factors

TenneT makes a distinction between four risk categories:

- strategic risks
- compliance-related/regulatory risks
- operational risks
- financial risks.

Strategic risks

A risk is classified as 'strategic' if it might jeopardise achievement of the company's strategic objectives.

Based on a strategic risk analysis conducted in 2011 with the Management Board and senior management, the following strategic risks were identified:

- grid performance: an increasing number of incidents/interruptions as a result of more intensive grid usage and the condition of the grid
- availability of equity capital: without sufficient equity capital, future investments that are essential and required by law will be delayed and the company's credit rating and access to debt capital may be affected
- transmission capacity/availability: risk of delays in the development of essential projects required by law (onshore and offshore) and the risk that offshore wind farm connections fail to meet guaranteed availability criteria
- project management: potentially insufficient control of infrastructural projects may cause inefficient and/or delayed investments
- reputation: risk of reputational damage if incidents/interruptions occur and if the public at large objects to construction of new routes yet to be built.



Compliance/regulatory risks

Regulatory and compliance risks include uncertainties about the regulatory framework and legislation. Changes to laws and regulations directly affect our activities, since TenneT obtains a large proportion of our 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 separately below.

Regulatory risks for TenneT TSO B.V.

The Office of Energy Regulation of the Netherlands Competition Authority (NMa) sets the 'permissible revenue' from providing transmission and system services. The Method Decisions for the new regulatory period (2011-2013) specify the method for determining the level of permissible revenue. The regulatory regime is predicated 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. TenneT believes that these studies are not sufficiently transparent to enable such determinations. Moreover, efficiency and productivity improvement targets are applied to total costs, which include a cost of capital reimbursement and depreciation. TenneT believes that applying these targets to a relatively long-lived asset base, with few improvements feasible once constructed, does not constitute a fair and equitable regulatory regime. Therefore, TenneT lodged an appeal with the Netherlands Trade and Industry Appeals Tribunal (CBb) to challenge the Method Decisions for the transmission and system services, 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 asset base built before 2001. In its verdict dated February 2012, the Industry Appeals Tribunal rejected most of TenneT's complaints.

For the 2011-2013 regulation period, the Office of Energy Regulation introduced incentives for the costs related to the purchase of energy and capacity for the transmission and system services (grid losses, congestion management, regulating and reserve capacity, emergency capacity and black-start services). The financial risks of TenneT TSO B.V. for the purchase of these services have been capped at 5% of the budget concerned.

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 functionality of such investments. The risk remaining for TenneT arises when the Office of Energy Regulation assesses retrospectively whether the major expansion investments were carried out efficiently. Substantial costs are involved in integrating major expansion investments in environmental planning and the landscape. These costs will generally be recovered up to the efficient level. However, the relatively high integration costs might result in lower scores in international benchmarks.

TenneT attempts to mitigate regulatory risks as far as possible by informing the Office of Energy Regulation, the Ministry of Finance and the Ministry of Economic Affairs, Agriculture and Innovation regarding the effects of the prevailing regulatory framework.

Regulatory risks for TenneT Germany

TenneT Germany is obliged by law to connect offshore wind farms in good time. Failure to provide timely connections (other than as the result of factors beyond TenneT Germany's control) may trigger legal claims from wind farm operators. The existing liability rules lack clarity and are presently subject to legal wrangling. However, the German government has publicly

announced that it will soon initiate a clarification of the law which – based on the principle of insurability – will allow unrestricted investments in offshore wind farms and offshore grid connections.

Nevertheless, the Germany's energy transition requires steep investments, especially in offshore grid connections. TenneT Germany has identified severe resourcing problems for the personnel, equipment and capital needed to make future investments.

Under the German Incentive Regulation (*Anreizregulierungsverordnung*), the Federal Network Agency may set a deviating lump sum for offshore operating expenses. A formal procedure was initiated in 2011 for that purpose. TenneT Germany submitted official comments. The regulator decided to set an offshore lump sum of 3.4% of total capital invested. This has reduced the risk of an insufficient lump sum.

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

Operational risks

Operational risks arise from day-to-day operations. A risk is designated as 'operational' if it threatens fulfilment of operational objectives.

The operational risks affecting the various departments are identified and analysed each quarter by the Risk Management department. The TenneT risk matrix is used to determine the likelihood and impact of identified risks. When listing operational risks, TenneT focuses mainly on the progress achieved in implementing the relevant controls and their effects on the likelihood of occurrence of the risk, and on the effect/consequences if the risk materialises. The 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.

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

To keep these risks under control, TenneT Netherlands produces a Quality and Capacity Plan once every two years. The plan is reviewed by the Office of Energy Regulation. The process of drawing up and reviewing these plans provides an insight into the management of the risks in question. 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 coming 10 to 20 years. This plan requires approval by the regulatory authority (the Federal Network Agency).

Employees at the National Control Centres in the Netherlands and Germany are trained to perform critical tasks and are qualified to perform switching operations. To maintain the skill level required for these positions, they attend periodic refresher courses and assessments in accordance with the relevant national and international requirements. The primary risk regarding system services stems from system imbalance leading to non-compliance with national and international agreements, laws and regulations. Various procedures and arrangements are in place to control this risk, and a crisis organisation has been set up to deal with any emergencies. The employees concerned receive regular training in various scenarios.

Financial risks

TenneT's policy on managing financial risks seeks to ensure effective liquidity and cash flow management and protection of group equity capital against financial risks. TenneT's financial risks are presented separately in the notes to the financial statements (under 'Financial risk management').



09 Statements by the Management Board

In-control Statement

As the Management Board, we are responsible for the design and operation of our internal risk management and control system. During 2011, we evaluated the design and operation of this system, mainly based on business control information, internal Audit reports and the reports from the external auditors.

The risk management framework 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 internal risk management and control systems provide a reasonable 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 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 to 31 December 2011 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 annual report give a true and fair view of the performance, results and position of TenneT, together with a description of the most significant risk and uncertainty factors faced by TenneT.

Arnhem, 22 March 2012

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 (standing): Cees Griffioen, Jan Vugts and Rien Zwitterloot.

From left to right (sitting): Aad Veenman and Fokko van Duyne.

TenneT has evolved enormously in the past few years. By investing billions of euro in the high-voltage grids in the Netherlands and Germany, the company, in its capacity as a cross-border electricity grid operator, now plays a prominent role in the development of an international electricity market and in the transition to sustainable energy. The Supervisory Board is closely involved in the development and growth of the organisation, both as supervisor and as an adviser.

Composition of the Management Board and Supervisory Board

Management Board

Mr. Schulte resigned on 1 August 2011. On 1 December 2011, the shareholder re-appointed Mr. Voorhorst, COO, for a four-year term. On the same date, Mr. De Boer, acting CFO since June 2010, was appointed as a statutory director for a four-year term. As of that date, the Management Board consisted of four statutory directors and one titular director. Further information on Management Board members can be found under 'Other Information.'

Supervisory Board

There were no changes to the Supervisory Board during the year under review. The Supervisory Board has 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 schedule that TenneT publishes on its website.

All Supervisory Board members are independent within the meaning of both the Corporate Governance Code as well as 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 held seven meetings in 2011. Five of these meetings were held in accordance with an agreed schedule and were attended by all members of the Supervisory Board. Two extra meetings were arranged to discuss and decide on a current investment proposal and the financing of the company. Every meeting covered TenneT's spearheads of safety and security of supply. The reassessment of the company's strategy was another subject of extensive discussions. The same applies to the financing of the company with a view to the large investments made in German offshore projects. The offshore investments in Germany were discussed in a wider context than just their financial merits.

The meetings also addressed:

- safety
- progress of projects
- financial statements for the 2010 fiscal year and appropriation of profit
- interim results for the 2011 fiscal year (internal quarterly reports and external interim financial statements)
- annual business plan for 2012-2014
- risk management
- strategic risk analysis
- regulatory issues
- remuneration policy
- information technology
- articles of association
- evaluation 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. They consist of members of the Supervisory Board; the main task of the committees is to prepare 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. Most of the committee meetings were fully attended.

One of the members of the Supervisory Board is also a member of the *Aufsichtsrat*, the counterpart at the German company TenneT TSO GmbH.

Audit Committee

In 2011, the Audit Committee consisted of Mr. Griffioen (chairman) and Mr. Vugts. The committee held six meetings in 2011 in the presence of the Management Board; three of these meetings were attended by our auditor PricewaterhouseCoopers Accountants N.V. Subjects discussed by the Audit Committee at its meetings included the financial statements for the 2010 fiscal year, the 2011 internal quarterly reports and the 2011 interim results. Major subjects covered were financing topics in general and financing of German offshore projects in particular. The Audit Committee evaluated the performance of the external auditor PricewaterhouseCoopers Accountants N.V. and subsequently reappointed it as TenneT's external auditor. The Audit Committee further discussed the restructuring of the finance department. This restructuring will result in a more centralised organisation.

The meetings also covered:

- management letters for 2011
- auditor's reports
- annual business plan for 2012-2014
- treasury rules and treasury report
- internal audit report
- tax report
- risk management and strategic risk analysis
- accounting issues, involving mainly the harmonisation of the application of IFRS to the Dutch and German TSOs
- cash management.

Remuneration and Appointments Committee

In 2011, the Remuneration and Appointments Committee consisted of Mr. Van Duyné (chairman) and Mr. Veenman. The committee held four meetings in 2011, 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:

- appointment and reappointment of statutory directors of the Management Board
- performance of statutory directors of the Management Board
- proposals for variable remuneration of statutory directors of the Management Board
- formulation of the 2011 remuneration report
- formulation of remuneration policy
- recruitment and selection of a member of the Supervisory Board.

A separate chapter is devoted to the 2011 Remuneration Report.

Strategic Investments Committee

In 2011, the Strategic Investments Committee consisted of Mr. Van Duyne (chairman), Mr. Veenman and Mr. Zwitterloot. The committee held three meetings in 2011, each in the presence of members of the Management Board. The Committee assesses whether investment proposals by the Management Board are compatible with the company's strategy and economic, financial and technical objectives. Dutch and German investment proposals were discussed: substantial and complex investments with regard to strengthening the Dutch grid and regarding German offshore grid connections.

Supervisory Board performance appraisal

In autumn 2011, the Supervisory Board evaluated its own performance, under supervision of an external facilitator. The results of the evaluation will be further elaborated in the course of 2012.

Contacts with the Works Council

The Supervisory Board attaches great importance to a good working relationship with the Works Council. In the year under review, representatives of the Supervisory Board attended two meetings between the Management Board and the Works Council. In February 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 the various subjects were addressed.

Financial statements

The Supervisory Board has examined the 2011 annual report, the 2011 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.

Word of appreciation

The Supervisory Board recognises that the major challenges that TenneT now faces require extraordinary efforts on the part of its employees. Therefore, the Board wishes to thank the Management Board and all TenneT managers and employees for their efforts and commitment in the year under review. TenneT's work safeguarded security of supply as well as safety and resulted in solid financial results and success in key matters like the equity financing of German offshore projects.

Our special thanks go to Mr. Schulte who left the TenneT Management Board in the past year. We are grateful to him for his work for this company and, in particular, for his contribution to the establishment of TenneT Offshore GmbH and the first connections to offshore wind farms in the German part of the North Sea.

Arnhem, 22 March 2012

A.W. Veenman (chairman)
J.F.T. Vugts (vice-chairman)
J.F. van Duyne
C. Griffioen
R.G.M. Zwitterloot

11 Remuneration report

Introduction

The Remuneration Report sets out the current remuneration policy for the Management Board (statutory directors) and the Supervisory Board of TenneT Holding B.V. as approved by the shareholder. The Remuneration Report specifies any adjustments in salary for the members of the Management Board (statutory directors) over the previous year, the extent of attainment of the previous year's targets, and the resulting awards of variable remuneration.

The report also specifies the remuneration received by the members of the Supervisory Board as well as the essential points of the new remuneration policy as approved by the shareholder and as applicable to the appointment of new directors.

On 1 December 2011, E.T.A. de Boer, acting CFO of TenneT Holding since June 2010, was appointed statutory director of TenneT Holding B.V. by the shareholder. The new remuneration policy also applies to this director who newly joined in 2011.

Remuneration policy of TenneT Holding B.V.

The remuneration policy as approved by the shareholder and applicable to the directors appointed before 2011 consists of the following elements:

Fixed salary

The fixed salary of the Management Board (statutory directors) is based on a job evaluation. Under this evaluation, the remuneration attached to the position is benchmarked against the remuneration of positions of a similar level in the general remuneration market in the Netherlands. The median of the benchmark is used as a basis for determining the desired level of fixed remuneration. If there is a deficit in comparison with the median, it is company policy to close it within a period not exceeding four years on condition of good performance. Additionally, the Supervisory Board may decide from year to year to index-link the salaries of executive directors.

The remuneration awarded to the German director differs from the remuneration policy for TenneT directors in the Netherlands. This discrepancy is caused by substantial differences between the Dutch and German remuneration markets, the latter being characterised by a lower level of fixed remuneration and a significantly higher variable component.

Variable salary

The remuneration policy provides for a maximum of 25% of fixed salary to be awarded as variable remuneration. The amount of variable remuneration awarded is based on the extent of attainment of previously agreed targets. These targets are set in four categories:

- personnel, safety performance, and security of supply
- strategic targets
- profitability
- operating targets.

The Supervisory Board annually presets the specific targets and the associated weighting factor for members of the Management Board, taking care to ensure a proper balance between public objectives and Corporate Social Responsibility aims. At the end of the year in question, the Supervisory Board also determines the extent to which the targets were achieved.

Variable remuneration provides year-on-year motivation to fulfil the targets defined and exhibits good balance between its purpose and size. The maximum variable remuneration of the German director is set at 100% of fixed salary, provided the targets are fully realised.

Pension costs

The pensions of all Dutch members of the Management Board are administered by the ABP Pension Fund. Pension accrual is based on a career-average 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 fixed salary.

In 2011, the pension contributions and pension reserves amounted to (in thousands of euro):

J.M. Kroon, Chief Executive Officer: 135 (2010: 132).

M.J. Fuchs, vice-chairman: 175 (2010: 145).

B.G.M. Voorhorst, Chief Operating Officer: 38 (2010: 36).

W.A. Keus, Chief Financial Officer, deceased 29 March 2011: 10 (2010: 38).

E.T.A. de Boer, Chief Financial Officer, appointed 1 December 2011: 3 (2010: -).

Severance pay

Severance pay for members of the Management Board as confirmed in the service agreements equals one gross annual salary.

Other compensations and secondary benefits

TenneT offers its executive directors and employees a competitive package of secondary benefits. According to the collective labour agreement for the energy sector these benefits include the allowance to participate in a life-course scheme, allowances towards medical insurance premiums and a contribution in the flexible benefit budget. Other secondary benefits are a company car, cost allowance and an insurance package for accidents, and incapacity for work.

Remuneration of the Management Board

Fixed remuneration

Effective 1 January 2011, the fixed salary of the statutory directors has been indexed with 1.1% ¹⁾, in accordance with the indexing for employees under the collective labour agreement in the Netherlands. In addition, the Supervisory Board decided to increase the fixed salary of all directors in recognition of performance and experience and what is customary for similar positions in the Dutch remuneration market. For the third consecutive year however, the Supervisory Board has decided to restrict remuneration to 90% of the median level in view of developments in the remuneration market.

Variable remuneration

Based on achievement of preset targets, the Supervisory Board decided to award the Management Board members variable payment realisation percentages between 81 and 88%, which resulted in the following remunerations over 2011:

1) This indexation does not apply to the vice-chairman given that an annual salary indexation is not customary in the German situation.

(x EUR 1,000)				
	Fixed remuneration		Variable remuneration	
	2011	2010	2011	2010
J.M. Kroon Chief Executive Officer	317	314	75	64
M.J. Fuchs Vice-chairman	260	260	211	216
B.G.M. Voorhorst Chief Operating Officer	229	221	50	44
W.A. Keus ¹⁾ Chief Financial Officer	60	237	-	19
E.T.A. de Boer ²⁾ Chief Financial Officer	20	-	-	-

1) Mr. Keus passed away on 29 March 2011.

2) Mr. De Boer was appointed director by the shareholder with effect from 1 December 2011. Mr. De Boer was acting CFO of TenneT since June 2010.

New remuneration policy

Social developments in the Netherlands, in combination with the growth and ongoing internationalisation of our organisation, have prompted a review of the remuneration policy for TenneT directors. The new policy has been approved by the shareholder and applies to all new directors appointed in or after 2011. Its main components are explained below.

Reference group

To determine the appropriate remuneration levels, we have examined the directors' salaries paid by organisations which conduct similar activities, and hence operate within the same employment market. These organisations include:

- international Transmission System Operators (TSOs)
- operators/managers of (large-scale) infrastructure
- installation specialists/engineering companies
- construction companies
- financial institutions.

The reference organisations were then divided into three subgroups: (semi-)public, private and international TSOs. The remuneration norm for TenneT directors has been set at the level of the (weighted) median of these sub-groups, with some adjustment reflecting the specific responsibilities of the position concerned.

Fixed salary

Application of the reference group method results in a total annual salary (fixed and variable components) which exceeds the maximum considered desirable by the shareholder, i.e. EUR 347,000 (at 1 January 2010).

When appointing a new member of the Management Board, the Supervisory Board will, at the request of the shareholder, apply a maximum total salary (fixed and variable components combined) of EUR 347,000. If, in the opinion of the Supervisory Board, this leads to unacceptable risks to the organisation, in that it is not possible to attract candidates of appropriate calibre and experience, the Supervisory Board will consult the shareholder accordingly.

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 awarded as variable remuneration, the amount of which is directly linked to the attainment of certain challenging targets which are set in advance by the Supervisory Board. 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 component will be paid annually in the form of a reserve, 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.

Employer's pension contributions

Directors participate in the standard pension plan as provided by the Collective Labour Agreement and applicable to all employees, i.e. the ABP Career Average Pension Scheme. Like other employees, directors are required to pay a percentage of their salary as a personal contribution. Pension contributions and entitlements are calculated according to a set schedule laid down in the pension plan, whereby the variable component of the directors' remuneration package is expressly excluded.

Contract of employment and compensation for early termination

All terms and conditions of employment are established by means of a formal contract of employment. New 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 may be considered unreasonable, up to two years' fixed salary may be paid at the discretion of the Supervisory Board, following consultation with the shareholder.

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 third-party 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 as made available to all TenneT employees. Directors receive a percentage of their fixed salary in the form of an employer's contribution to the life career savings plan. The exact percentage is established by Collective Labour Agreement and is the same for all staff. The company does not extend loans, loan guarantees or advances against future earnings.

Remuneration of the Supervisory Board

With effect from 1 January 2011, the remuneration and committee fees of Supervisory Board members were readjusted with 2.5%, which is in accordance with enduring course of action over the last years.

In view of the increasing scope and complexity of the issues presented to the Remuneration and Appointments Committee, its remuneration was increased structurally. One of the members of the TenneT Supervisory Board, Mr. Vugts, is member of the Supervisory Board (*Aufsichtsrat*) of TenneT TSO GmbH to ensure a proper balance between the holding's interests and national interests.

The 2011 committee fees of Supervisory Board members are listed below:

Audit Committee	EUR 6,320 per annum
Remuneration and Appointments Committee	EUR 5,000 per annum
Strategic Investments Committee	EUR 5,000 per annum
<i>Aufsichtsrat</i> TenneT TSO GmbH	EUR 5,500 per annum

The table below shows the total remuneration received by the Supervisory Board members in 2011:

(x EUR 1,000)		Total remuneration	
		2011	2010
Chairman	A.W. Veenman	36	24
Vice-chairman	J.F.T. Vugts ¹⁾	33	29
Member	C. Griffioen	25	24
Member	J.F. van Duyne	29	21
Member	R.G.M. Zwitserloot	24	2

1) Vice-chairman with effect from 16 January 2011.

Temporary expansion of the Supervisory Board

Several members of the Supervisory Board are to step down over the next two years, having served the maximum permissible term. New appointments must therefore be made. To ensure the continuity of the Supervisory Board, a sixth member is to be appointed on a temporary basis in 2012, subject to the shareholder's approval.



12 2011 Financial Statements of TenneT Holding B.V.

These financial statements comprise:

- Consolidated balance sheet at 31 December 2011
- Consolidated profit-and-loss account for the year 2011
- Consolidated statement of comprehensive income for the year 2011
- Consolidated statement of changes in equity for the year 2011
- Consolidated cash flow statement for the year 2011
- General notes
- Notes to the consolidated balance sheet at 31 December 2011
- Notes to the consolidated profit-and-loss account for the year 2011
- Company balance sheet at 31 December 2011
- Company profit-and-loss account for the year 2011
- Company statement of changes in equity for the year 2011
- Notes to the company balance sheet and profit-and-loss account for the year 2011

To the financial statements have been added:

- Appropriation of profit
- Independent auditor's report

Consolidated balance sheet at 31 December 2011 (x EUR 1,000)

Assets	Note	2011	2010
Non-current assets			
Tangible fixed assets	1	5,091,454	4,120,723
Intangible assets	2	110,839	141,195
Investments in associates	3	20,462	17,151
Financial assets	4	633	682
Deferred income tax assets	5	61,473	40,541
Receivables related parties	6	5,923	9,669
Other receivables	7	18,208	18,776
Total non-current assets		5,308,992	4,348,737
Current assets			
<i>Inventory</i>	8	10,129	23,380
<i>Receivables</i>			
Accounts receivable and other receivables	9	1,586,813	1,708,506
Financial assets	4	24,000	-
Accounts receivable in connection with energy exchange transactions	10	-	188,194
Derivative financial instruments	11	-	10,649
Current income tax assets		5,666	6,401
<i>Total receivables</i>		1,616,479	1,913,750
<i>Cash and cash equivalents (excluding bank overdrafts)</i>	12		
Collateral securities		36,473	724,075
Short-term bank deposits		609,985	-
Cash at bank		63,609	44,506
<i>Total cash and cash equivalents (excluding bank overdrafts)</i>		710,067	768,581
<i>Non-current assets and assets of disposal group classified as held for sale</i>	13	924,110	-
Total current assets		3,260,785	2,705,711
Total assets		8,569,777	7,054,448

The balance sheet total includes items amounting to EUR 1,685.4 million (2010: EUR 2,160.9 million) that relate to assets not at TenneT Group's free disposal, mainly EEG trade debtors and assets relating to energy exchange transactions.

Consolidated balance sheet at 31 December 2011 (x EUR 1,000)

Equity and liabilities	Note	2011	2010
Equity	14		
Share capital		100,000	100,000
Share premium reserve		600,000	-
Hedging reserve		2,819	-4,241
Reserve for exchange rate differences		-1,805	-1,997
Retained earnings		832,889	694,337
<i>Equity attributable to owners of the parent</i>		1,533,903	788,099
Non-controlling interests		17,325	15,180
Hybrid securities		497,600	496,800
Total equity		2,048,828	1,300,079
Non-current liabilities			
Borrowings	15	2,580,235	1,572,011
Investment contributions	16	369,808	378,888
Auction receipts	17	376,543	319,056
Provisions	18	123,772	110,435
Deferred income tax liabilities	19	277,596	252,296
Other liabilities	20	35,503	16,433
Total non-current liabilities		3,763,457	2,649,119
Current liabilities			
Borrowings	15	17,180	762,272
Investment contributions	16	15,287	11,936
Provisions	18	62,681	55,869
Work in progress		942	2,280
To be settled in tariffs	21	32,029	37,006
Bank overdrafts	22	-	82,082
Accounts payable in connection with energy exchange transactions	23	-	185,643
Liabilities relating to collateral securities	24	36,473	724,075
Current income tax liabilities		52,697	34,237
Accounts payable and other liabilities	25	1,659,360	1,209,850
		1,876,649	3,105,250
<i>Liabilities of disposal group classified as held for sale</i>	13	880,843	-
Total current liabilities		2,757,492	3,105,250
Total equity and liabilities		8,569,777	7,054,448

Consolidated profit-and-loss account for the year 2011 (x EUR 1,000)

	Note	2011	2010
Revenue	26	1,525,182	1,322,475
Other income	16	15,739	16,650
Total income		1,540,921	1,339,125
Operating expenses			
Energy and capacity expenses	27	583,720	550,484
Transmission grid and system expenses	28	134,237	85,190
Personnel expenses	29	129,410	112,080
Depreciation and amortisation of assets	30	219,189	180,691
Impairments	30	-	134,400
Impairment reversal	30	-2,468	-3,024
Other losses/(gains) - net	31	-10,643	-881
Other operating expenses	32	130,748	122,396
Total operating expenses		1,184,193	1,181,336
Operating profit		356,728	157,789
Finance income	33	65,402	44,240
Finance expenses	33	120,545	79,464
Other finance charges	33	16,869	5,753
Finance result		-72,012	-40,977
Profit before income tax		284,716	116,812
Income tax expense	34	84,532	40,613
Share of (loss)/profit of associates	35	197	991
Profit for the year		200,381	77,190
Profit attributable to:			
Owners of the parent		198,404	76,152
Non-controlling interests		1,977	1,038
		200,381	77,190

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

	Note	2011	2010
Basic and diluted earnings per share	14	992	381

Consolidated statement of comprehensive income for the year 2011 (x EUR 1,000)

	2011	2010
Profit for the year	200,381	77,190
Other comprehensive income		
Exchange rate differences	360	363
Actuarial loss on post employment benefit obligations	-9,664	-5,594
Termination Swap British Pounds	-	2,804
Cash flow hedges ended	8,576	-18,691
New cash flow hedges	-	10,649
Amortisation cash flow hedges	875	2,350
Direct equity movements in associates	-508	-
Taxation	508	2,518
Other comprehensive income for the year, net of tax	147	-5,601
Total comprehensive income for the year	200,528	71,589
Attributable to:		
Owners of the parent	198,383	70,444
Non-controlling interests	2,145	1,145
	200,528	71,589

Taxation included in Other comprehensive income can be broken down as follows:

	2011	2010
Actuarial loss on post employment benefit obligations	2,899	1,781
Termination Swap British Pounds	-	-715
Cash flow hedges ended	-2,170	4,766
New cash flow hedges	-	-2,715
Amortisation cash flow hedges	-221	-599
	508	2,518

Consolidated statement of changes in equity for the year 2011 (x EUR 1,000)

	Attributable to equity holders of the company						Non-controlling interest	Hybrid securities	Total equity
	Paid-up and called-up capital	Share premium reserve	Hedging reserve	Reserve for exchange rate difference	Retained earnings	Total			
Balance at 1 January 2010	100,000	-	-2,090	-2,788	623,437	718,559	9,016	-	727,575
Profit for the year									
Profit for the year 2010	-	-	-	-	76,152	76,152	1,038	-	77,190
Other comprehensive income 2010									
Actuarial loss on post employment benefit obligations	-	-	-	-	-5,594	-5,594	-	-	-5,594
Exchange rate differences	-	-	-	256	-	256	107	-	363
Termination Swap British Pounds	-	-	2,804	-	-	2,804	-	-	2,804
Cash flow hedges ended	-	-	-18,691	-	-	-18,691	-	-	-18,691
New cash flow hedges	-	-	10,649	-	-	10,649	-	-	10,649
Amortisation cash flow hedges	-	-	2,350	-	-	2,350	-	-	2,350
Taxation	-	-	737	-	1,781	2,518	-	-	2,518
Total comprehensive income 2010, net of tax	-	-	-2,151	256	72,339	70,444	1,145	-	71,589
Transactions with equity holders, recognised directly in equity									
Capital distribution Elia in APX-ENDEX Holding B.V.	-	-	-	535	9,561	10,096	11,004	-	21,100
Dividend 2009 TenneT Holding B.V.	-	-	-	-	-11,000	-11,000	-	-	-11,000
Dividend 2010 APX-ENDEX Holding B.V.	-	-	-	-	-	-	-5,985	-	-5,985
Total transactions with equity holders, recognised directly in equity	-	-	-	535	-1,439	-904	5,019	-	4,115
Hybrid securities									
Capital contribution on hybrid securities	-	-	-	-	-	-	-	496,800	496,800
Total hybrid securities	-	-	-	-	-	-	-	496,800	496,800
Balance at 1 January 2011	100,000	-	-4,241	-1,997	694,337	788,099	15,180	496,800	1,300,079

	Attributable to equity holders of the company						Non-controlling interest	Hybrid securities	Total equity
	Paid-up and called-up capital	Share premium reserve	Hedging reserve	Reserve for exchange rate difference	Retained earnings	Total			
Balance at 1 January 2011	100,000	-	-4,241	-1,997	694,337	788,099	15,180	496,800	1,300,079
Profit for the year									
Profit for the year 2011	-	-	-	-	198,404	198,404	1,977	-	200,381
Other comprehensive income 2011									
Actuarial loss on post employment benefit obligations	-	-	-	-	-9,664	-9,664	-	-	-9,664
Exchange rate differences	-	-	-	192	-	192	168	-	360
Cash flow hedges ended	-	-	8,576	-	-	8,576	-	-	8,576
Amortisation cash flow hedges	-	-	875	-	-	875	-	-	875
Direct equity movements in associates	-	-	-	-	-508	-508	-	-	-508
Taxation	-	-	-2,391	-	2,899	508	-	-	508
Total comprehensive income 2011, net of tax	-	-	7,060	192	191,131	198,383	2,145	-	200,528
Transactions with equity holders, recognised directly in equity									
Capital contribution Dutch State	-	600,000	-	-	-	600,000	-	-	600,000
Dividend 2010 TenneT Holding B.V.	-	-	-	-	-20,000	-20,000	-	-	-20,000
Distribution on hybrid securities	-	-	-	-	-43,625	-43,625	-	-	-43,625
Taxation	-	-	-	-	11,046	11,046	-	-	11,046
Total transactions with equity holders, recognised directly in equity	-	600,000	-	-	-52,579	547,421	-	-	547,421
Hybrid securities									
Taxation on fees for hybrid securities	-	-	-	-	-	-	-	800	800
Total hybrid securities	-	-	-	-	-	-	-	800	800
Balance at 31 December 2011	100,000	600,000	2,819	-1,805	832,889	1,533,903	17,325	497,600	2,048,828

Consolidated cash flow statement for the year 2011 (x EUR 1,000)

	2011	2010
<i>Operational cash flow</i>		
Earnings before interest and taxation (EBIT) *)	365,047	177,260
Interest paid	-77,496	-35,633
Interest received	20,763	14,058
Income tax paid	-147,564	4,552
Depreciation, amortisation and impairment	216,721	312,067
Provisions	20,149	-21,093
	397,620	451,211
<i>Movements in working capital</i>		
Inventory	13,251	-11,892
Receivables	-36,242	-73,888
Liabilities	655,378	-504,729
	632,387	-590,509
Cash flows from operating activities	1,030,007	-139,298
<i>Investment cash flow</i>		
Additions of tangible fixed and intangible assets	-912,100	-658,795
Disposals of tangible fixed and intangible assets	36,104	-
Acquisition TenneT TSO GmbH	-	-644,847
Other acquisitions	-	-17,395
Disposals financial fixed assets	-	50,273
New deposits	-48,000	-
Repayment of deposits	24,000	-
Capital contribution Open Tower Company B.V.	-3,687	-
Capital contribution Central Allocation Office GmbH	-50	-
Capital contribution Elia in APX-ENDEX Holding B.V.	-	21,100
Cash flows from investing activities	-903,733	-1,249,664
<i>Financing activities</i>		
New long-term borrowings	995,955	1,535,651
Repayments of long-term borrowings	-129,680	-1,044,123
New hybrid securities	-	496,800
Taxation on fees for hybrid securities	800	-
Capital contribution Dutch State	300,000	-
New short-term borrowings	-	1,255,282
Repayments of short-term borrowings	-627,592	-645,189
Dividend TenneT Holding B.V.	-20,000	-11,000
Distribution on hybrid securities	-43,625	-
Cash flows from financing activities	475,858	1,587,421
Change in cash and cash equivalents	602,132	198,459
Cash and cash equivalents including bank overdrafts at 31 December	1,288,631	686,499
Cash and cash equivalents including bank overdrafts at 1 January	686,499	488,040
	602,132	198,459

*) EBIT consists of Profit for the year amounting to EUR 200.4 million (2010: EUR 77.2 million) plus Finance expenses excluding interest on provisions amounting to EUR 112.7 million (2010: EUR 78.5 million) minus Other interest income amounting to EUR 20.8 million (2010: EUR 14.1 million) plus Corporation tax payable amounting to EUR 72.7 million (2010: EUR 35.7 million).

For reconciliation between cash and cash equivalents according to balance sheet and cash and cash equivalents according to cash flow statement, reference is made to note 12.

General notes

1. Main developments and changes in structure of TenneT Holding B.V.

APX-ENDEX

Management and the shareholders (TenneT currently holds approximately 56%) of APX-ENDEX are exploring strategic partnerships for APX-ENDEX. Such a partnership might result in new business combinations resulting in a decrease of TenneT's interest below 50%.

From an accounting perspective this leads to the conclusion that TenneT will lose control and as a result the aggregate APX-ENDEX assets and liabilities are presented, under IFRS 5 par 8A, as held for sale. As APX-ENDEX business as a whole does not represent a major line of business in the context of IFRS 5, TenneT does not report APX-ENDEX as a discontinued operation.

APX-ENDEX is included in the segment Other.

TenneT Offshore 1. Beteiligungsgesellschaft mbH and TenneT Offshore 2. Beteiligungsgesellschaft mbH

In Germany two new entities have been created, being TenneT Offshore 1. Beteiligungsgesellschaft mbH and TenneT Offshore 2. Beteiligungsgesellschaft mbH. Several assets regarding the offshore projects BorWin1 and BorWin2 have been transferred to these entities.

Reddyn B.V.

Furthermore, in July 2011, TenneT and Liander established Reddyn B.V., a joint service provider that works exclusively for TenneT and Liander. Both companies have a 50% share. Reddyn provides the construction, management, maintenance and fault-clearing service for high-voltage and (complex) mid-voltage assets of the present and former (110/150 kV) Liander grids.

2. Nature of the business

TenneT provides transmission and system services, constructs, operates and manages transmission grids, maintains the energy balance between supply and demand, facilitates the operation of the energy market, encourages the development of a sustainable energy market and rents out telecommunications infrastructure. TenneT TSO B.V. is responsible for the operation of electricity transmission grids within the Netherlands, as well as cross-border interconnection grids rated for voltages of 500 V or more. The grids with a voltage level of 220 kV and 380 kV were already owned by TenneT. TenneT acquired ownership of the 110 kV and 150 kV grids in the course of 2009, with the exception of grids encumbered by Cross Border Leases. TenneT TSO B.V. also facilitates market activities by maintaining the energy balance between supply and demand, and authenticating electricity produced by environmentally friendly methods.

TenneT has been in charge of managing all grids in the Netherlands with a voltage level of 110 kV and higher since 1 January 2008, with the exception of grids encumbered by Cross Border Leases. This expansion of TenneT's remit is a consequence of the Independent Grid Administration Act, which was passed in 2006.

The terms within which TenneT TSO B.V. operates are defined in legislation and regulations laid down by the Ministry of Economic Affairs and the Office of Energy Regulation. The most important of these instruments are the Electricity Act 1998 and the associated Technical Codes (Metering Code, System Code, Information Code and Grid Code), as well as the Tariff Code drawn up by the Office of Energy Regulation. These codes explain how the provisions of the Act should be complied with.

As administrator of the national high-voltage grid, TenneT TSO B.V. receives funds from performing its statutory duties, being the auctioning of interconnection capacity. These funds are managed by the Foundation for the Management of Allocated Funds from the National High-Voltage Grid (statutory name: *Stichting Beheer Doelgelden Landelijk Hoogspanningsnet*).

As stated above, TenneT additionally facilitates the operation of the (sustainable) energy market. In this capacity, the company operates a number of energy exchanges and builds and manages interconnections. Energy exchanges are market places for the reconciliation of demand for and supply of energy. They arrange the financial settlement of anonymously negotiated transactions. TenneT also manages part of the infrastructure required to send and receive broadcasting signals. The entire issued share capital in TenneT Holding B.V. is held by the State of the Netherlands.

On 25 February 2010, TenneT's indirectly, wholly-owned subsidiary TenneT GmbH & Co. KG acquired all of the issued and outstanding shares of the German high-voltage grid operator transpower stromübertragungs gmbh as well as indirectly all of the issued and outstanding shares of transpower offshore gmbh. The principal activities are:

- to operate and maintain the transmission system
- to provide grid connection to and transmission of electricity through its extra high-voltage grid
- to provide preferential grid connection to and take off electricity produced from renewable energy sources or cogeneration plants
- to provide system services (balancing/control power, redispatch, energy for grid losses)
- to manage cross-border interconnections (in particular in case of congestions)
- to provide connection to and take off energy produced by offshore wind farms.

TenneT TSO GmbH (formerly transpower stromübertragungs gmbh) manages approximately 40% of the German transmission grid and is responsible for maintaining the supply-and-demand balance in this area. TenneT Offshore GmbH (formerly transpower offshore gmbh) and TenneT Offshore 1. Beteiligungsgesellschaft mbH are responsible for offshore wind farm connections. The economic activity of TenneT Germany is largely determined by the regulatory framework imposed by the German legislator and by the German Federal Network Agency (*Bundesnetzagentur*, BNetzA). The most important instrument is the Incentive Regulation Ordinance (*Anreizregulierungsverordnung*, ARegV).

TenneT Holding B.V.'s head office is located in Arnhem, the Netherlands.
TenneT TSO GmbH's head office is located in Bayreuth, Germany.

3. Summary of accounting principles applied

3.1. General notes

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

The financial statements have been prepared in accordance with the historical cost convention, with the exception of derivative financial instruments and available-for-sale financial assets, which have been stated at fair value.

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 5.

Change in presentation of revenues and costs

The presentation of EEG and KWK-G revenues and associated costs has been changed.

The renewable energy act (*Erneuerbare-Energien-Gesetz*, EEG) obliges system operators to convey renewable energies prior to other kinds of energies. The remuneration for the renewable energies that has to be paid to the plant operators is legally fixed. The energy infeed is sold at the energy exchange via service providers. Because of the fact that renewable energies are subsidised, the remuneration for the plant operators is significantly higher than the price achievable at the energy exchange. Therefore, an EEG surcharge shall cover the higher expenses. The EEG surcharge is added to the regular electricity price of the end customer and forwarded to the TSOs on a monthly basis. The impact of the sale and purchase of EEG and KWK-G on the result of TSOs is prescribed to be neutral.

EEG and KWK-G revenues and expenses in essence therefore have to be equal for the TSO, apart from a small efficiency incentive which TenneT can earn by transporting the energy at a cost level that is lower than a pre-set cost level (*'die Basiswert'*). In 2010, TenneT presented the gross inflows of the EEG and KWK-G sales as revenues in the profit-and-loss account and the outflows as costs ('gross presentation'). Based on a further analysis of the substance of these activities and (absence of) risks and rewards in relation to the sale and purchase of energy, management now believes that it is more appropriate to present these in- and outflows on a net basis. TenneT is a principal for the transmission activity and the bonus earned as compensation for efficient transportation is presented as revenue earned from its transmission activity. Further reference is made to chapter 5. The change in accounting policy is based on IAS 8 14 (b) as it results in reliable and more relevant information being provided.

In 2011, the gross EEG revenues amount to EUR 8.1 billion and were EUR 16.3 million higher than the gross EEG expenses due to a bonus received for efficient transportation. In 2010 both gross EEG revenues and gross EEG expenses amounted to EUR 5.9

billion. In the 2011 financial statements these amounts are presented on a net basis in the profit-and-loss account lowering both revenues and operating expenses for the applicable amounts. The revenues from the bonus for efficient transportation in 2011 amounts to EUR 16.3 million (2010: nil) and remains presented as revenues. Further reference is made to note 26.

In 2011, the gross KWK-G revenues amount to EUR 72.7 million (2010: EUR 108.8 million) and the gross KWK-G expenses amount to EUR 60.9 million (2010: EUR 87.0 million). Differences between KWK-G revenues and KWK-G expenses are caused by a release of the KWK-G old provision after TenneT TSO GmbH won law cases and remains to be presented as revenues. The release during 2011 amounted to EUR 11.8 million (2010: EUR 21.8 million). Further reference is made to note 26.

The change in presentation does not affect the group's operating profit or profit for the year. The change in presentation does not affect the group's equity and cash flows.

New and amended standards adopted by the group

New standards, amendments and interpretations issued effective for the financial year 2011

IAS 24, 'Related Party Disclosures', has been amended. The amendment clarifies the definition of a related party and simplifies the disclosure requirements for entities controlled by governments. TenneT already complied with the revised standard.

There are no new IFRSs or IFRIC interpretations that are effective for the first time for the financial year beginning on or after 1 January 2011 that have a material impact on the group.

New standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2011 and not early adopted

IAS 19, 'Employee benefits', was amended in June 2011. The impact on the group will be as follows: to eliminate the corridor approach and recognise all actuarial gains and losses in OCI as they occur; to immediately recognise all past service costs; and to replace interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability (asset). TenneT expects that this will have limited or no impact because it never applied the corridor approach.

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 2013. 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 2013. 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 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 2013. 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 2012.

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.

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.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the group.

3.2. Principles of consolidation

(a) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the group controls another entity. The group also assesses existence of control where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of de-facto control. De-facto control may arise in circumstances where the size of the group's voting rights relative to the size and dispersion of holdings of other shareholders give the group the power to govern the financial and operating policies.

Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

The group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

Intercompany transactions, balances, income and expenses on transactions between group companies are eliminated. Profits and losses resulting from intercompany transactions that are recognised in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.

(b) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(c) Disposal of subsidiaries

When the group ceases to have control any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

(d) Associates

Associates are all entities over which the group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The group's investment in associates includes goodwill identified on acquisition.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

The group's share of post-acquisition profit or loss is recognised in the profit-and-loss account, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to 'share of profit/(loss) of an associate' in the profit-and-loss account.

Profits and losses resulting from upstream and downstream transactions between the group and its associate are recognised in the group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the group.

Dilution gains and losses arising in investments in associates are recognised in the profit-and-loss account.

(e) Joint ventures

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 mbH, Bayreuth	(100%)
TenneT Offshore 2. Beteiligungsgesellschaft mbH, 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%)
New Values B.V., Utrecht	(50%)
• European Energy Auction B.V., Gemert	(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%)

The companies in which TenneT holds 50% of the share capital are joint ventures. The consolidation also includes 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. These allocated funds comprise proceeds of imbalance settlements and auction receipts.

Foundation for the Management of Allocated Funds from the National High-Voltage Grid

As administrator of the Dutch high-voltage grid, TenneT TSO B.V. receives funds from performing certain statutory duties, such as the auctioning of interconnection capacity and the maintenance of the energy balance. The proceeds from these activities (auction receipts and imbalance settlements, respectively) are transferred to and managed by a special purpose entity, the Foundation for the Management of Allocated Funds from the National High-Voltage Grid ('the Foundation', statutory name: *Stichting Beheer Doelgelden Landelijk Hoogspanningsnet*), which is based in Arnhem, the Netherlands.

TenneT has established the Foundation to provide for added transparency with respect to the collection and disbursement of auction receipts and imbalance settlements, including a separate set of financial accounts. These funds must earn a safe, reasonable return and are kept legally separate from TenneT's ordinary course operations. They are not at TenneT's free disposal and may only be used after approval of the Office of Energy Regulation. Imbalance settlements collected in one year are used in a subsequent year as an offset to permitted revenue for such subsequent year, effectively reducing transmission tariffs. Auction receipts may either be used to reduce transmission tariffs or to invest in further cross-border high-voltage connections and/or for other targets, to be set by the Board of the Dutch Competition Authority.

The Foundation partly financed the acquisition price of transpower stromübertragungs gmbh for an amount of EUR 375 million, of which EUR 75 million was borrowed from TenneT Orange B.V. In connection with the Foundation's equity participation in the acquisition, it acquired a 10-year put option with an exercise price of EUR 375 million, which obliges TenneT Orange B.V. to buy the Foundation's participation in TenneT TSO Duitsland B.V. when exercised. TenneT Orange B.V.'s obligation in turn is covered by a guarantee issued by the Dutch State for an amount of EUR 300 million. This put option protects the Foundation from any and all investment risk related to its participation in TenneT TSO Duitsland B.V. and serves as a means to provide the necessary liquidity to the Foundation to fulfil its legal and statutory duties, if so demanded by the Office of Energy Regulation.

In addition, the Foundation has granted TenneT Holding B.V. a 10-year call option with an exercise price of EUR 375 million, granting TenneT Holding B.V. the right to buy the Foundation's participation.

TenneT consolidates the Foundation for IFRS purposes, as TenneT can exercise direct control over its management and financial and operational policy. For instance, TenneT has the right to appoint the majority of the Foundation's board members. The obligation to use funds owned by the Foundation related to auction receipts is recorded as a liability of TenneT TSO B.V. titled 'Auction Receipts'. The obligation to use funds owned by the Foundation related to imbalance settlements is recorded as a liability of TenneT TSO B.V. as part of the item 'To be settled in tariffs'. Cash and cash equivalents held by the Foundation are recorded as an asset under 'Cash and cash equivalents' and are further specified as 'Funds not at free disposal' (see note 12 Cash and cash equivalents (excluding bank overdrafts)).

3.3. Notes to the consolidated cash flow statement

The cash flow statement is prepared using the indirect method and covers the cash flows from operating, investment and financing activities.

3.4. Foreign currencies

(a) Functional and presentation currency

Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in euros, which is the group's presentation currency. Most entities have EUR as their functional currency and there are some entities with a different functional currency (GBP).

(b) Transactions and balances

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 when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the profit-and-loss account within 'finance income' or 'finance expenses'.

Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are broken down into translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available for sale, are included in other comprehensive income.

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (a) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet
- (b) income and expenses for each profit-and-loss account are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions)
- (c) all resulting exchange differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Exchange differences arising are recognised in other comprehensive income.

3.5. Accounting principles applied to the valuation of assets and liabilities

Tangible fixed assets

The tangible fixed assets consist of high-voltage substations and connections and other assets; many of the assets in question are components of the transmission grids operated by TenneT TSO B.V., TenneT TSO GmbH, TenneT Offshore 1.

Beteiligungsgesellschaft mbH and NLink International B.V. The tangible fixed assets (high-voltage substations, high-voltage connections and other assets) that form part of the grids that were acquired in 2009 from Delta N.V. have been recognised under 'Other assets', as TenneT was not yet able to classify the relevant assets into the various categories. The tangible fixed assets (high-voltage substations, high-voltage connections and other assets) that form part of the grids that were acquired in 2009 from Enexis B.V. and Alliander N.V. have been transferred from 'Other assets' to the applicable categories as TenneT obtained the information to classify the relevant assets into the various categories during 2011. TenneT does not own the land on which its high-voltage pylons are located. In the Netherlands, TenneT TSO B.V. pays landowners for the right to use the sites. The payments are charged against the result each year. In Germany, TenneT TSO GmbH pays a once-only compensation to landowners and capitalises the amount in the carrying value of the corresponding asset.

Where the valuation of tangible fixed assets within the Dutch national high-voltage grid is concerned, use has been made of the facility provided for in IFRS 1, which allows tangible fixed assets to be stated at their fair value on the transition date (1 January 2004), whereby this figure is subsequently used as the 'deemed cost price'. The fair value of the national high-voltage grid components is derived from their regulated asset value. The latter value is set by the Office of Energy Regulation and partly determines the allowed revenue. Subsequently, as of 1 January 2004 grid assets have been stated at cost price less cumulative depreciation and impairments.

The other tangible fixed assets have been stated at acquisition price or manufacturing cost, including interest charges incurred during the construction phase and future decommissioning costs, less linear cumulative depreciation and impairments over the estimated useful life of the asset. The useful life and current residual value of tangible fixed assets are reviewed annually and adjusted if necessary.

Additions made at the request and expense of third parties are capitalised after the deduction of third-party contributions. Any profit realised on such projects is attributed to the appropriate financial year(s) in proportion to the progress of the project, and recognised in the profit-and-loss account.

Depreciation is calculated on a linear basis, assuming the useful life of the various asset types to be as follows (in 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	20-40
	Cables (underground)	30-40
Other	Office buildings	40-50
	Office ICT equipment	3-5
	Process automation facilities	3-5
	Other company assets	5-10

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

A tangible fixed asset is subject to impairment if its carrying value exceeds its recoverable value. If this is the case, TenneT reduces the asset's carrying value to its recoverable value. The recoverable value is written down over the remaining term of the asset. On each reporting date, TenneT assesses whether there are any indications that impairment losses recognised in the previous period no longer exist or may have decreased. If this is the case, TenneT reverses the impairment charge.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'Other losses/(gains) – net' in the profit-and-loss account.

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.

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.

Investments funded from auction revenues

With the approval of the Dutch Office of Energy Regulation, certain investments in tangible fixed assets are funded by receipts from the auctioning of cross-border interconnection capacity. Auction receipts applied for this purpose are recorded separately as investment contributions and therefore not deducted from the carrying values of the relevant tangible fixed assets.

Intangible assets

Goodwill arises on the acquisition of subsidiaries and joint ventures and represents the excess of the consideration transferred over TenneT's interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interest in the acquiree.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the CGUs, or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units 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 or lower.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a triggering event. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is recognised immediately as an expense and is not subsequently reversed.

Computer software is capitalised at acquisition price or manufacturing cost, less linear cumulative depreciation and impairment. The depreciation period is equal to the estimated useful life (three to five years). The manufacturing cost is calculated by adding a mark-up for indirect costs to the direct labour costs. Research and maintenance expenditure associated with computer software is recognised in the profit-and-loss account.

The other intangible assets consist of an acquired trade name, a membership database, and contracts and relationships with participants; these have been stated at cost – which is the fair value as determined in the Purchase Method – less linear depreciation and impairment. The amortisation period is equal to the estimated useful life and amounts to 5, 11 or 14.5 years.

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.

An intangible asset is subject to impairment if its carrying value exceeds its recoverable value. If this is the case, TenneT reduces the asset's carrying value to its recoverable value. The residual depreciation charges are written down over the remaining term of the asset. On each reporting date, TenneT assesses whether there are any indications that impairment losses recognised in the previous period no longer exist or may have decreased. If this is the case, TenneT reverses the impairment charge.

Financial assets and liabilities

Financial assets and liabilities are classified as follows:

- financial assets and liabilities held until maturity: initially stated at fair value and subsequently at amortised cost, using the effective interest method
- loans and receivables: initially stated at fair value and subsequently at amortised cost, using the effective interest method
- available-for-sale financial assets: stated at fair value with movements in fair value recorded in the statement of comprehensive income.

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the group commits to purchase or sell the asset.

The financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is the intention to settle on a net basis or realise the asset and settle the liability simultaneously.

Securities and deposits with a remaining term of more than one year have been included under long-term financial assets. Securities and deposits with an original term of more than three months and a remaining term of less than twelve months from the balance sheet date have been classified as short-term financial assets. Deposits with an original term of less than three months have been regarded as cash and cash equivalents.

Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The group designates certain derivatives as either:

- (a) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge) or
- (b) hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge).

At the inception of the transaction, the group documents the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair values of various derivative instruments used for hedging purposes are disclosed in note 11. Movements on the hedging reserve in other comprehensive income are shown in the consolidated statement of changes in equity. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months, and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

(a) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the profit-and-loss account, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The group only applies fair value hedge accounting for hedging fixed interest risk on borrowings. The gain or loss relating to the effective portion of interest rate swaps hedging fixed rate borrowings is recognised in the profit-and-loss account within 'finance expenses'. The gain or loss relating to the ineffective portion is recognised in the profit-and-loss account within 'other losses/(gains) – net'. Changes in the fair value of the hedged fixed rate borrowings attributable to interest rate risk are recognised in the profit-and-loss account within 'finance expenses'.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to profit or loss over the period to maturity.

(b) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the profit-and-loss account within 'other losses/(gains) – net'.

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss. The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in the profit-and-loss account within 'finance income' or 'finance expenses'. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset, like fixed assets, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset. The deferred amounts are ultimately recognised in depreciation.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the profit-and-loss account. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the profit-and-loss account within 'finance income' or 'finance expenses'.

Impairment of assets

Goodwill and other assets that have an indefinite useful life are not subject to depreciation and/or amortisation and are tested annually for impairment. An annual review is performed to determine whether acquired goodwill has been subject to any impairment; the value of goodwill is stated at cost less cumulative impairment. Impairment losses on goodwill are not reversed.

Assets that are subject to amortisation are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. In that event, the recoverable amount is determined. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. An impairment loss is recognised in the profit-and-loss account.

For the purposes of assessing impairment, goodwill is grouped at the lowest level which is monitored by management and for which separately identifiable cash flows exist. Other assets are assessed at the cash generating unit level, which can be even lower.

Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the profit-and-loss account, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Non-current assets 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.

Receivables related parties

Receivables related parties are initially recognised at fair value. Receivables related parties are subsequently carried at amortised cost.

Inventory

Inventories are stated at the lower of cost and net realisable value. For part of the inventory the cost is determined using the first-in, first-out (FIFO) method and for the remaining part by the weighted average cost 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. If such projects yield demonstrable net earnings, any profit is assigned to the appropriate financial year(s) in proportion to the progress of the project. The stage of completion is measured by reference to the contract costs incurred up to the end of the reporting period as a percentage of total estimated costs for each contract. Provisions for any anticipated losses are recognised in the period during which it becomes apparent that a project is likely to result in a loss; such losses are charged against the result. On the balance sheet, the group reports the net contract position for each contract as either an asset or a liability. A contract represents an asset where costs incurred plus recognised profits (less recognised losses) exceed progress billings; a contract represents a liability where the opposite is the case.

Accounts receivable and other receivables

Accounts receivable and other receivables are initially stated at fair value and subsequently at amortised cost, using the effective interest method, less any valuation allowance that may be considered necessary. The amount of the valuation allowance is measured as the difference between the carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated profit-and-loss account. Amounts charged to the valuation allowance account are generally written off, when there is no expectation of recovering additional cash.

Debtors relating to energy transactions

Trade debtors and debtors relating to energy transactions have a carrying value equal to their fair value and are stated in accordance with the accounting principles that apply to Accounts receivable and other receivables.

Cash and cash equivalents/bank overdrafts

In the consolidated statement of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. In the consolidated balance sheet, bank overdrafts are shown on the credit side of the balance sheet within current liabilities.

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.

Equity

Securities are classified as equity if the counterparties cannot oblige TenneT to pay interest or to redeem in part or in full.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the profit-and-loss account over the period of the borrowings using the effective interest method. Repayment obligations with a term of less than one year are presented as current liabilities.

Investment contributions

The investment contributions included under 'Liabilities' relate to tangible fixed assets owned by TenneT TSO B.V., to which contributions are made out of the auction proceeds after approval from the regulator is obtained. An annual amount equal to the depreciation charges, plus a portion of the operating expenses, is released to 'Other income'.

Other investment contributions (*Baukostenzuschüsse*) are payments from third parties who are connected to the grid of TenneT TSO GmbH. For TenneT TSO GmbH, these payments have the character of a deferred income because they were made for the service provided by TenneT TSO GmbH to offer a grid connection with the adequate capacity to the customer. If the customer requires TenneT TSO GmbH to build a new substation, a grid connection or increase capacity for his connection, the customer has to pay an investment contribution. The investment contributions are recognised at TenneT TSO GmbH as a liability on the balance sheet and are released to the profit-and-loss account over the lifespan of the assets.

Auction receipts

Auction receipts refer to the amounts that TenneT TSO B.V. has collected when performing its legal duty (auctioning the available capacity on the cross-border connections). The resulting receipts are not at free disposal. Auction receipts are part of and added to the allocated funds of the Foundation for the Management of Allocated Funds from the National High-Voltage Grid. These funds need to yield a reasonable return. Funds may be disbursed only as authorised by the Dutch Office of Energy Regulation. The Office of Energy Regulation is authorised to oblige TenneT TSO B.V. to disburse the auction receipts for specific purposes. The auction receipts are initially valued at fair value and subsequently measured at amortised cost using the effective interest method.

To be settled in tariffs

To be settled in tariffs relate to amounts to be settled in future tariffs in the system of allowed revenue regulation, or receipts that are not at free disposal. The figure for amounts received in advance included under 'Liabilities' takes interest into account. Please refer to the accounting principles for determining revenue for further explanation.

Provisions

Provisions are formed when the company has a legal or constructive obligation at the balance sheet date as a result of past events, when it is more likely than not that an outflow of resources will be required to settle the obligation, and when the amount can be reliably estimated. Where non-current liabilities are concerned, the corresponding provisions are based on present value. The percentage is based on the specific risks associated with the liability. Any increase in the size of a provision over time is treated as an interest charge.

The provision for environmental management and decommissioning serves to cover the costs associated with the disposal of hazardous substances and the decommissioning of abandoned high-voltage connections and underground cables. The size of this provision is calculated on the basis of present value. The additions to the provision are determined based on the cables/lines that are expected to be decommissioned in the future. The additions to the provision are charged to the profit-and-loss account when they relate to environmental management; they are charged to tangible fixed assets when they relate to decommissioning.

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.

TenneT operates a number of pension and pension-related schemes for the benefit of current and former personnel. The pensions of almost all Dutch personnel are administered by the ABP Pension Fund in the form of a defined-benefit pension scheme, under which the amounts payable to pensioners are based on length of service and average salary during service. The pension scheme administered by ABP is a multi-employer scheme. IAS 19 requires the reporting of certain information regarding defined-benefit pension schemes in the operators' financial statements. In particular, the balance of the scheme's assets and defined-benefit obligations has to be included on the balance sheet. However, ABP has indicated that it is unable to provide company-specific information of the kind required by IAS 19 for defined-benefit pension schemes. In addition, there is no obligation to make additional payments, nor a right to make withdrawals from the pension fund, other than through adjustments to the annual pension contributions. Hence, the scheme has been treated as if it were a defined contribution scheme, and the pension contributions payable in respect of the financial year under review are charged against the result as pension costs.

In German activities, the group has two additional defined benefit plans. Typically, defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognised in the balance sheet in respect of defined benefit pension plans in Germany is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets, together with adjustments for unrecognised past-service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension obligation.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. Past-service costs are recognised immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In that case, the past-service costs are amortised on a straight-line basis over the vesting period.

Other long-term liabilities

Other long-term liabilities include, among other things, capacity reservation fees relating to the *Verordnung zur Regelung des Netzanschlusses von Anlagen zur Erzeugung von elektrischer Energie* (KraftNAV). According to this law, operators of energy supply systems are obliged to connect customers to their networks at technical and commercial terms that are fair, non-discriminatory and transparent. The KraftNAV capacity reservation fee is treated as deferred income.

Creditors relating to energy transactions

Creditors relating to energy transactions have a carrying value that equals their fair value and are stated in accordance with the accounting principles that apply to Trade payables and other payables.

Trade payables and other payables

Trade payables and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. Trade payables and other payables are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

3.6. Accounting principles for profit determination

General

Profit is determined as the difference between the fair value of consideration received for services rendered and the costs incurred over the year.

Revenue

TenneT TSO B.V.

The revenues of TenneT TSO B.V. are subject to ex ante regulation by the Office of Energy Regulation of the Dutch Competition Authority. Besides ex ante regulation, TenneT TSO B.V. is to some extent subject to ex post regulation by the Office of Energy Regulation. Revenue surpluses and deficits resulting from differences between expected (ex ante) and realised (ex post) electricity transmission volumes by TenneT TSO B.V. are incorporated in tariffs of subsequent year(s) and therefore recorded on the balance sheet in 'To be settled in tariffs'. The method of tariff regulation of TenneT TSO B.V. is hence based on turnover regulation.

Under Dutch regulation, the auction receipts are recorded on the balance sheet. These receipts may be used for the financing of future cross-border connections or to reduce future transmission tariffs, depending on approval of the regulator.

TenneT TSO GmbH

TenneT TSO GmbH's revenue sources are on the one hand revenues from energy infeed from renewable energy sources (EEG revenues) or from cogeneration (KWK-G revenues) and on the other hand (regulated) grid tariffs for transport of energy in TenneT TSO GmbH's transmission system in Germany.

TenneT TSO GmbH derives net income only from its grid tariffs. These tariffs are subject to German regulation by the Federal Network agency (*Bundesnetzagentur*, BNetzA). As of 1 January 2009, grid tariffs are subject to an incentive regulation imposing a revenue cap regime for grid operators in Germany. In this respect, TenneT TSO GmbH is dependent on regulatory decisions by BNetzA, such as the revenue cap calculation for the regulatory period, the determination of the individual efficiency factor applicable for the regulatory period, the approval of investment budgets applications and several negotiated agreements with the regulator to regard certain cost items in the yearly revenue cap.

Differences between expected (ex ante) and realised (ex post) electricity transmission volumes supplied to customers by TenneT TSO GmbH are incorporated in tariffs of future years in accordance with sec. 5 ARegV. However, under German regulation the realised amounts are recognised in the profit-and-loss account, whereas under Dutch regulation, the expected amounts are recorded in the balance sheet.

EEG revenues and expenses

EEG 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 balance sheet 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.

KWK-G revenues and expenses

KWK-G 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 balance sheet 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.

TenneT Offshore GmbH

TenneT Offshore GmbH is a service provider of TenneT TSO GmbH who builds the grid connections of offshore wind farms and operates and maintains these connections. TenneT Offshore GmbH was created to separate the offshore-related costs from the onshore costs of TenneT TSO GmbH.

According to sec. 17, paragraph 2a *Energiewirtschaftsgesetz*, costs for connecting offshore wind farms have to be balanced among all German TSOs. For that reason, TenneT TSO GmbH invoices approximately 70% of the offshore costs (according to relevant KWK-G key) to the other TSOs. The respective revenues are regarded in the year of cost occurrence. The remaining 30% is part of the revenue cap with a time lag of two years. In the year the costs are incurred TenneT TSO GmbH's does not recognise the associated revenues.

Auction revenues

TenneT TSO GmbH receives revenues from auctioning the capacity on the cross-border connections. By EU-law it is prescribed to generally use these revenues to lower grid fees or to invest for capacity increase on cross-border connections. TenneT TSO GmbH mainly uses these revenues to lower grid fees. In case TenneT TSO GmbH uses auction revenues for investments – in accordance with the BNetzA – an imputed investment contribution is set up which is released over 30 years. The release of the investment contribution lowers the revenue cap with a two year time lag.

Under IFRS the German auction revenues are shown as revenues in the profit-and-loss account based on the regulatory situation, whereas in the Dutch situation it is recorded on the balance sheet.

Connection fees are recognised as deferred income and released to the profit-and-loss account in accordance with the asset's useful life.

Other income

Other income consists of the amortisation of investment contributions received in advance.

Operating expenses

The energy and capacity expenses arise out of the purchase of energy and capacity for the provision of transmission and system services and maintaining the energy balance between supply and demand.

The transmission grid and system expenses include both the cost of operating the transmission grids, and the cost of maintaining systems to support the primary business processes.

The costs of capitalisations associated with the construction of tangible fixed assets are deducted from the personnel expenses.

Leases that are the economic property of the lessor are qualified as operational leases. Payments made under such lease contracts are charged against the profit-and-loss account on a linear basis over the term of the lease.

Finance income and expenses

The finance expenses consist of interest and fees on loans, current account facilities and other debt positions. The finance income associated with resources managed by the Foundation for the Management of Allocated Funds from the National High-Voltage Grid is added directly to the balances of the assets in question and to the matching liabilities. Finance income also includes interest costs that are capitalised insofar as they can be attributed to a qualifying asset.

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 property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

Taxes

Taxes in respect of the profit have been calculated on the basis of the profit reported in these financial statements and the applicable rules and rates of taxation. Account has been taken of fiscally non-deductible expenses and possible forward loss compensation.

3.7. Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the International Management Board that makes strategic decisions.

For more detailed financial information by segment, please refer to note 36 in the notes to the consolidated financial statements.

4. Financial risk 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

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.) 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.

Credit risk arising from energy transactions

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 both a buying and selling position. In relation to the financial settlement, APX-ENDEX faces the risk that the buyer does not pay. Nevertheless, APX-ENDEX will have to pay the seller. APX-ENDEX mitigates this risk by operating a margining framework. The top five debtors make up 42% of the total position per year-end 2011 (year-end 2010: 68%), 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. 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.

Every quarter, the Treasury Department reports to the Supervisory Board on the control of treasury risks. 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 and a limited foreign currency 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 4.8% for the 2008-2010 period and 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 rates (either by issuing fixed-rate debt or by using derivatives like interest rate swaps). TenneT uses scenarios to analyse its interest rate exposure. The scenario with an increase or decrease of 200 basis points in interest rates would have a limited impact on TenneT's interest exposure. Based on TenneT's financing position on 31 December 2011 where the loan portfolio has only fixed interest conditions, any change in interest rates would only impact on TenneT's cash balance. A theoretical increase respectively decrease in interest rates of 200 basis points during 2012 could create an increase respectively decrease in interest income over 2012 of EUR 13.8 million (2011: EUR 6.4 million).

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 both a 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 buy the position in the market and would be exposed to a market price risk. APX-ENDEX policy is to quantify the risk with a certain likelihood and mitigate that risk in full. This risk is mitigated by operating a margining framework.

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.

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 lower than the planned value, the difference between planned and actual costs is split-up into a so-called 1% death-band of the planned costs which has to be given back and decreases the revenue cap in t+2 and a bonus for the TSO which amounts to 25% of the remaining difference between actual and planned costs, but is limited to a maximum bonus of 5% of the planned costs. The remainder has to be paid back to the grid user via the grid fees. The 1% death band and the remainder are considered 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 677.0 million (2010: EUR 16.7 million).

TenneT runs no credit risk on its accounts receivable as potential losses are expected to be compensated in the tariffs for the next periods.

TenneT also 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.

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 (2010: 'AA-'). The treasury policy has been temporarily adjusted to facilitate the possibilities of depositing funds on a secured base with 'A-' or higher rated entities. This policy change is a result of the economic developments during 2011. The terms of the deposits are aligned with the expected time of deployment of the funds.

On the balance sheet date, TenneT Group had deposited EUR 710.3 million with third parties (2010: EUR 44.5 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.

On the balance sheet date, TenneT had a total of EUR 2,367.1 million (2010: EUR 1,498 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 2011 and 31 December 2010 on a non-discounted basis, using five maturity intervals.

From the maturity schedule for 2011, 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.

Maturity schedule (x EUR 1,000)						
31 December 2011	<1M	1M<3M	3M<1Y	1-5Y	>5Y	Total
<i>Liabilities relating to assets not at free disposal</i>						
Accounts payable in connection with energy exchange transactions	290,087	-	-	-	-	290,087
Liabilities relating to collateral securities	602,360	-	-	-	-	602,360
	892,447	-	-	-	-	892,447
<i>Liabilities relating to assets at free disposal</i>						
Borrowings	-	5,000	17,180	608,718	1,960,513	2,591,411
Interest payable on borrowings	3,087	81,250	22,707	400,259	515,035	1,022,338
Accounts payable and other liabilities, excluding interest payable	1,591,346	-	-	-	-	1,591,346
	1,594,433	86,250	39,887	1,008,977	2,475,548	5,205,095
Total	2,486,880	86,250	39,887	1,008,977	2,475,548	6,097,542

Part of the amounts included in the maturity schedule 2011 relate to APX-ENDEX and are therefore included in the balance sheet under 'Liabilities of disposal group classified as held for sale'. Also refer to chapter 1 'Main developments and changes in structure of TenneT Holding B.V.'.

Maturity schedule (x EUR 1,000)						
31 December 2010	<1M	1M<3M	3M<1Y	1-5Y	>5Y	Total
<i>Liabilities relating to assets not at free disposal</i>						
Accounts payable in connection with energy exchange transactions *)	185,643	-	-	-	-	185,643
Liabilities relating to collateral securities *)	724,075	-	-	-	-	724,075
	909,718	-	-	-	-	909,718
<i>Liabilities relating to assets at free disposal</i>						
Borrowings	279,395	460,605	17,179	608,718	978,457	2,344,354
Interest payable on borrowings	591	39,774	23,477	250,911	358,302	673,055
Bank overdrafts	82,082	-	-	-	-	82,082
Interest payable on bank overdrafts	3,087	-	-	-	-	3,087
Accounts payable and other liabilities, excluding interest payable	1,163,399	-	-	-	-	1,163,399
	1,528,554	500,379	40,656	859,629	1,336,759	4,265,977
Total	2,438,272	500,379	40,656	859,629	1,336,759	5,175,695

* The equivalent amount has been recognised under 'Cash and cash equivalents' for this item.

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 not have a significant refinancing requirement in 2012 because on the balance sheet date, the portfolio consisted of long-term loans with a limited redemption obligation of EUR 17.2 million in 2012. TenneT manages its refinancing risk by spreading the tenors of new financing arrangements. TenneT has also diversified its sources of funding by means of its EMTN programme and CP programme. Both programmes have significantly reduced 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 at its disposal to refinance possible short-term debts. The term of this committed revolving credit facility was extended by one year in August 2011 to August 2016.

4.2.5. Methods of determining the fair value of assets and liabilities

The table below lists the assets and liabilities measured at fair value, and indicates the level at which the measurement took place.

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)

(x EUR 1,000)				
	Level 1	Level 2	Level 3	Total
31 December 2011				
Assets				
Forward Starting Interest Rate Swaps	-	-	-	-
Available-for-sale financial assets	-	-	633	633
	-	-	633	633
31 December 2010				
Assets				
Forward Starting Interest Rate Swap	-	10,649	-	10,649
Available-for-sale financial assets	-	-	682	682
	-	10,649	682	11,331

4.2.6. 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 various capital market transactions), adjust dividends paid to its shareholder or modify its investment plans.

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 2011, the group's financial strategy, which was unchanged from 2010, was to maintain a funds from operations to net debt ratio of at least 0.08. The funds from operations to net debt ratio as of 31 December 2011 and as of 31 December 2010 were calculated as follows:

(x EUR million)		
	2011	2010
Profit for the year attributable to owners of the parent	198.4	76.2
Non-recurring items	-79.6	137.5
Depreciation and amortisation	219.2	180.7
Amortisation investment contributions	-15.7	-16.7
Other non-cash items included in profit for the year attributable to owners of the parent	20.1	-21.1
Funds from operations	342.4	356.6
Current interest-bearing debt	22.2	844.4
Non-current interest bearing debt	2,569.2	1,582.1
Minus non-restricted cash and cash equivalents	-677.0	-16.6
EEG working capital	-6.5	-602.0
Net debt	1,907.9	1,807.9
Funds from operations/net debt	0.18	0.20

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.

5. Principal estimates and assumptions underlying the financial statements

All estimates and forecasts with a bearing on the preparation of the financial statements are subject to continuous evaluation. They are based on experience and prognoses regarding future events, which are reasonable under the relevant circumstances.

The Group makes estimates and assumptions regarding future developments. By definition, estimates rarely prove to coincide precisely with actual outcomes. The estimates and assumptions that could lead to significant adjustments to the carrying values of assets and liabilities in the coming financial year are further described below.

Gross versus net presentation of EEG and KWK-G revenues and costs

TenneT presents revenue gross of costs when the Group acts as the principal in the arrangement and net of costs when the Group acts as agent. Determining whether TenneT is acting as a principal or as an agent requires judgement and consideration of all relevant facts and circumstances. In general, TenneT is considered acting as a principal when it has exposure to the significant risks and rewards associated with the sale of goods or the rendering of services and as an agent when TenneT does not have exposure to the significant risks and rewards. To determine whether TenneT is acting as a principal or as an agent TenneT considers among others whether it:

- has the primary responsibility for providing the goods or services to the customer
- has inventory risk
- has latitude in establishing prices
- bears the credit risk for the amount receivable from the customer
- earns an amount that is predetermined, being either a fixed fee per transaction or a stated percentage of the amount billed to the customer.

For EEG and KWK-G revenues, TenneT by law must purchase the energy from the plant operators and sell it on the energy exchange. All amounts received from the sale of energy, including subsidies, must be passed through to the plant operators. By law, the impact of the sale and purchase of energy on the results of TenneT is prescribed to be neutral (i.e. nil). TenneT can earn a compensation (bonus) on this activity by fulfilling its transportation role at a cost level below a pre-set cost level (*'die Basiswert'*). Based on a detailed analysis of all relevant facts and circumstances, TenneT concludes that it is acting as an agent in relation to the sale and purchase of energy and therefore presents revenues from the sale of EEG and KWK-G and related purchase costs on a net basis. TenneT is a principal for the transportation activity and the bonus earned as compensation for its transportation activity is presented as revenue.

Impairment testing tangible fixed assets

Please refer to note 1 Tangible fixed assets.

Impairment testing intangible assets

Please refer to note 2 Intangible assets.

Useful life tangible fixed assets

The valuation of the tangible fixed assets is based on depreciation periods derived from studies of applied useful lives of grid nets at home and abroad.

Costs of maintaining and operating transmission grids

Please refer to note 28 Transmission grid and system expenses.

Defined benefit pension arrangements

Please refer to note 18 Provisions.

Notes to the consolidated balance sheet at 31 December 2011

(x EUR 1,000)

1. Tangible fixed assets

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.

	High-voltage substations	High-voltage connections	Other assets	Tangible fixed assets under construction	Total
At 1 January 2011:					
Cost	1,713,210	1,478,894	959,551	1,034,061	5,185,716
Accumulated depreciation and impairment	510,993	421,381	127,186	5,433	1,064,993
Carrying value	1,202,217	1,057,513	832,365	1,028,628	4,120,723
Additions	28,310	31,556	8,064	1,160,374	1,228,304
Transfers	308,714	293,918	13,547	-616,179	-
Transfers to intangible assets software	-	-	-	-37,609	-37,609
Transfer – cost	168,951	481,148	-642,674	-7,425	-
Transfer – accumulated depreciation	-15,221	-29,914	45,135	-	-
Transfer impairment	-	-5,433	-	5,433	-
Disposals – cost	-53,288	-2,869	-14,081	-85	-70,323
Disposals – accumulated depreciation	38,517	2,484	6,345	-	47,346
Reversal impairment NorNed	-	2,468	-	-	2,468
Transfer to held for sale – cost	-12,715	-	-3,859	-186	-16,760
Transfer to held for sale – accumulated depreciation	8,304	-	1,770	-	10,074
Depreciation	-82,878	-90,235	-19,656	-	-192,769
Movement in 2011	388,694	683,123	-605,409	504,323	970,731
At 31 December 2011:					
Cost	2,153,182	2,282,647	320,548	1,532,951	6,289,328
Accumulated depreciation and impairment	562,271	542,011	93,592	-	1,197,874
Carrying value at 31 December 2011	1,590,911	1,740,636	226,956	1,532,951	5,091,454

	High-voltage substations	High-voltage connections	Other assets	Tangible fixed assets under construction	Total
At 1 January 2010:					
Cost	940,870	896,358	809,780	483,052	3,130,060
Accumulated depreciation and impairment	340,817	318,157	47,982	5,433	712,389
Carrying value	600,053	578,201	761,798	477,619	2,417,671
Additions	27,237	11,718	10,640	604,336	653,931
Initial recognition of acquired companies	715,154	449,712	124,763	60,879	1,350,508
Transfers	87,903	19,018	5,627	-112,548	-
Disposals – cost	-41,093	-4,575	-	-	-45,668
Disposals – accumulated depreciation	44,718	69	-	-	44,787
Impairments	-80,800	-53,200	-400	-	-134,400
Reversal impairment NorNed	-	3,024	-	-	3,024
Depreciation	-64,220	-59,868	-45,042	-	-169,130
Movement in 2010	688,899	365,898	95,588	552,667	1,703,052
At 31 December 2010:					
Cost	1,730,071	1,372,231	950,810	1,035,719	5,088,831
Accumulated depreciation and impairment	441,119	428,132	93,424	5,433	968,108
Carrying value at 31 December 2010	1,288,952	944,099	857,386	1,030,286	4,120,723

The tangible fixed assets (high-voltage substations, high-voltage connections and other assets) that form part of the grids that were acquired in 2009 from Delta N.V. have been recognised under 'Other assets', as TenneT was not yet able to classify the relevant assets into the various categories. The tangible fixed assets (high-voltage substations, high-voltage connections and other assets) that form part of the grids that were acquired in 2009 from Enexis B.V. and Alliander N.V. have been transferred from 'Other assets' to the applicable categories as TenneT obtained the information to classify the relevant assets into the various categories during 2011.

In 2011, construction interest amounting to EUR 44.6 million (2010: EUR 30.2 million) was capitalised. The interest rate was 4.3% (2010: 4.3%).

The largest projects under construction are Randstad 380 kV, North West Netherlands and the offshore projects BorWin1, BorWin2, DolWin1, SylWin1 and HellWin1 in Germany.

For further information on the initial recognition of acquired companies in 2010, please refer to chapter 1 'Main developments and changes in structure of TenneT Holding B.V.'.

Impairment test TenneT GmbH & Co. KG

After performing the annual impairment test as defined in the accounting principles, paragraph 'Impairment of Assets', for the cash generating unit TenneT GmbH & Co. KG, management of the company considered that no material impairment losses needed to be recognised against goodwill (refer to note 2 Intangible assets) in the statement of the financial position with respect to the subject cash generating unit.

The impairment test conclusion is derived from the value in use of TenneT Germany. The value in use is determined on the basis of the business plan of TenneT Germany, and long-term projections. After the business plan period, long-term projections have been derived in line with the German regulatory regime with respect to Transmission System Operators.

The discount rate is derived from the regulatory allowable rate of return on imputed equity and cost of debt. Furthermore, the regulatory leverage of 40% equity and 60% debt has been considered to determine the weighted average cost of capital. The pre-tax weighted average cost of capital used for the impairment test amounts to 7.0% (2010: 7.47%).

Sensitivity analyses show that there is no immediate risk for impairment if the discount rate (weighted average cost of capital) increases, as the discount rate is directly linked to the allowable rate of return on imputed equity and cost of debt. An impairment may only be applicable if the German regulator introduces a regulatory return on imputed equity that is lower than the return on equity that can be realised on a stand-alone basis for an investment with a comparable risk profile.

The following steps have been applied to prepare the sensitivity analysis:

1. define alternative scenarios for the period in which outperformance can be realised
2. determine the impact on the value in case of using a fixed WACC and separately in case of using a variable WACC.

This analysis shows that the buffer reduces in case of shortening the period in which outperformance can be realised. However, both in the case of using a fixed WACC and in the case of using a variable WACC, the risk of impairment is limited.

Reversal impairment NorNed

The Office of Energy Regulation has attached conditions to the reimbursement of the costs of the NorNed cable. An initial settlement was effected in 2008. This settlement included a penalty in the amount of EUR 10 million (2010) payable by TenneT TSO B.V. This penalty has been recognised in the accounts as an impairment on the NorNed cable. The final settlement with the insurance company came to pass in 2010, resulting in a partial reversal (EUR 3.0 million) of the impairment. During 2011 additional preliminary settlements took place with different parties, resulting in an extra reversal of EUR 2.5 million of the impairment.

Impairment 220/380 kV in 2010

The Office of Energy Regulation laid down the Method Decision for the fifth regulatory period on 22 September 2010. Among other things, this Method Decision for the fifth regulatory period declared the 220/380 kV grids partially inefficient (43%). This presupposed inefficiency will cause tariffs to drop in the coming years. The impairment test on the cash generating unit 220/380 kV grid resulted in an impairment of EUR 134.4 million. TenneT used the recoverable amount (value in use method) and a pre-tax WACC of 7.55% to calculate the impairment.

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
At 1 January 2011:						
Cost	67,205	47,663	64,398	33,777	-	213,043
Accumulated amortisation and impairment	17,640	40,390	8,183	5,635	-	71,848
Carrying value	49,565	7,273	56,215	28,142	-	141,195
Additions	-	6,639	-	343	3,560	10,542
Transfers from tangible fixed assets under construction	-	37,609	-	-	-	37,609
Disposals – cost	-5,350	-2,063	-	-7,784	-	-15,197
Disposals – accumulated depreciation	-	1,535	-	535	-	2,070
Transfer to held for sale – cost	-20,694	-8,579	-	-22,861	-1,069	-53,203
Transfer to held for sale – accumulated depreciation	2,002	7,274	-	4,909	-	14,185
FX effects cost	58	-	-	-	-	58
Amortisation	-	-18,791	-5,135	-2,494	-	-26,420
Movement in 2011	-23,984	23,624	-5,135	-27,352	2,491	-30,356
At 31 December 2011:						
Cost	41,219	81,269	64,398	3,475	2,491	192,852
Accumulated amortisation and impairment	15,638	50,372	13,318	2,685	-	82,013
Carrying value at 31 December 2011	25,581	30,897	51,080	790	2,491	110,839

	Goodwill	Software	Telecom contracts	Other intangible assets	Intangible assets under construction	Total
At 1 January 2010:						
Cost	40,295	42,031	64,398	22,368	-	169,092
Accumulated amortisation and impairment	17,640	35,834	3,230	3,485	-	60,189
Carrying value	22,655	6,197	61,168	18,883	-	108,903
Initial recognition of companies acquired	26,911	1,265	-	10,813	-	38,989
Additions	-	4,268	-	596	-	4,864
Amortisation	-	-4,457	-4,953	-2,151	-	-11,561
Movement in 2010	26,911	1,076	-4,953	9,258	-	32,292
At 31 December 2010:						
Cost	67,206	47,564	64,398	33,777	-	212,945
Accumulated amortisation and impairment	17,640	40,291	8,183	5,636	-	71,750
Carrying value at 31 December 2010	49,566	7,273	56,215	28,141	-	141,195

The telecom contracts amounting to EUR 51.1 million (2010: EUR 56.2 million) mainly consisted of telecommunication customer contracts obtained as part of the acquisition of Nadine Netwerk B.V., HS Netten Zeeland B.V. and TenneT TSO E B.V. The telecommunication customer contracts were tested for impairments. The pre-tax WACC used was 10.8% (2010: 10.9%). The average used growth rate was 2.0%. The results did not give rise to an impairment.

Impairment test

The goodwill can be specified as follows:

	2011	2010
APX-ENDEX Holding B.V. *)	4,447	4,447
APX Commodities Ltd. *)	1,961	1,904
Belpex B.V. *)	6,779	6,779
ENDEX European Energy Derivatives Exchange N.V. *)	5,505	4,208
NOVEC B.V.	2,143	8,790
TenneT GmbH & Co. KG	20,164	20,164
Nadine Netwerk B.V.	1,791	1,791
TenneT TSO E B.V.	186	186
HS Netten Zeeland B.V.	1,297	1,297
Total goodwill	44,273	49,566

*) This goodwill relates to APX-ENDEX and is therefore included in the balance sheet under 'Non-current assets and assets of disposal group classified as held for sale'. Also refer to chapter 1 'Main developments and changes in structure of TenneT Holding B.V.'.

The decrease in goodwill NOVEC B.V. mainly relates to the goodwill which belonged to the pylons which had been sold during 2011.

Please refer to note 1 Tangible fixed assets for further information on the TenneT GmbH & Co. KG goodwill impairment test.

For other goodwill impairment tests, the recoverable amount of the cash-generating units has been determined using discounted cash flow calculations of the recoverable amount. The calculations are based on long-term (five-year) cash flow projections based on financial forecasts approved by management. Cash flows for the period more than five years ahead have been extrapolated on the assumption that there will be no further growth. The figures have been discounted to present value, using discounting rates (ranging from 7.3% to 10.0%) that reflect the risks associated with the activities.

3. Investments in associates

This item relates to TenneT's participating interests in Holding des Gestionnaires de Réseaux de Transport d'Électricité S.A.S. (HGRT), European Market Coupling Company GmbH (EMCC), Open Tower Company B.V. (OTC), and Energie Data Services Nederland (EDSN) B.V. The movement in this item was as follows:

	EDSN	OTC	HGRT	EMCC	Total 2011	Total 2010
Balance at 1 January	-	5,602	11,229	320	17,151	12,933
Transfer from financial assets	180	-	-	-	180	-
Initial recognition of acquired companies	-	-	-	-	-	320
Capital contributions	-	3,687	-	-	3,687	3,397
Share in result	-	-1,250	1,447	-	197	991
Change in hedging reserve	-	-508	-	-	-508	-
Dividend paid	-	-	-245	-	-245	-490
Balance at 31 December	180	7,531	12,431	320	20,462	17,151

Energie Data Services Nederland B.V. (EDSN)

EDSN is an innovative provider of high-quality services for the design, recording and improvement of supra-organisational administrative processes and the required message traffic for the liberalised energy market in the Netherlands. TenneT TSO B.V. holds 25% of the shares in EDSN.

Open Tower Company B.V. (OTC)

On 24 September 2009, Colonne B.V. was established as the first activity of the joint venture between Rabo Bouwfonds Communication Infrastructure Fund C.V. (via CIF Holding Wireless B.V.) and NOVEC B.V. The purpose of this joint venture is the acquisition and operation of radio communication towers. On 18 December 2009, Open Tower Company B.V. was established as a holding company for all activities and assets of the joint venture. The shares in Colonne B.V. have been transferred to Open Tower Company B.V. NOVEC B.V. holds a 25% share in Open Tower Company B.V.

In 2011, NOVEC B.V. deposited an additional capital contribution (share premium) in Open Tower Company B.V.

Holding des Gestionnaires de Réseaux de Transport d'Électricité S.A.S. (HGRT)

Holding des Gestionnaires de Réseaux de Transport d'Électricité S.A.S. holds shares in Powernext S.A., a French electricity exchange. In 2008, HGRT increased its stake in Powernext S.A. to 52.8%. TenneT TSO B.V. holds a 24.5% share in HGRT and thus indirectly a 12.8% share in Powernext S.A.

European Market Coupling Company GmbH (EMCC)

EMCC European Market Coupling Company GmbH was founded in Hamburg, Germany, in August 2008. It is a joint venture of Nord Pool Spot, European Energy Exchange (EEX), 50Hertz Transmission GmbH (formerly Vattenfall Europe Transmission), TenneT TSO GmbH (formerly transpower stromübertragungs gmbh) and Energinet.dk. EMCC is accredited as trading participant at the exchanges EPEX and Nord Pool Spot. The company is entitled by the capacity owners to allocate available cross-border capacities in implicit auctions. TenneT TSO GmbH holds a 20% interest in EMCC.

4. Financial assets

The value of the financial assets can be broken down as follows:

	2011	2010
Available-for-sale financial assets	633	682
Financial assets not at free disposal	24,000	-
Total	24,633	682
Long-term	633	682
Short-term	24,000	-
Total	24,633	682

Available-for-sale financial assets

This item relates to TenneT's available-for-sale financial assets in:

	EDSN	CASC. EU	Central Allocation Office	Total 2011	Total 2010
Balance at 1 January	180	489	13	682	4,410
Transfer to investments in associates	-180	-	-	-180	-
Acquisition Belpex S.A. by APX-ENDEX Holding B.V.	-	-	-	-	-3,800
Initial recognition of companies acquired	-	-	-	-	298
Other movements	-	81	-	81	-
Investments	-	-	50	50	-
Recall share capital	-	-	-	-	-226
Balance at 31 December	-	570	63	633	682

Capacity Allocation Service Company.eu S.A. (CASC.EU)

CASC.EU is a joint enterprise for cross-border services that operates as an integrated auction house. It was set up to implement and organise long-term (annual, monthly and daily) auctions of transmission capacity on the borders between various countries. Shareholders each hold an 8.33% share and comprise: TenneT TSO GmbH, Creos Luxembourg S.A., Elia System Operator S.A., EnBW Transportnetze AG, RTE EDF Transport S.A., Amprion GmbH, VERBUND-Austrian Power Grid AG, Swissgrid AG, Elektro – slovenija d.o.o., Hellenic Transmission System Operator S.A., Terna Rete Elettrica Nazionale Società per Azioni and TenneT TSO B.V.

Central Allocation Office GmbH

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., VERBUND-Austrian Power Grid AG, MAVIR ZRt., ELES, d.o.o.

The available-for-sale financial assets are generally stated at fair value. The fair value has been derived from discounted cash flow calculations. The cash flow projections have been derived from long-term plans and the figures have been discounted to present value, using discounting rates that reflect the risks associated with the activities.

Financial assets not at free disposal

Financial assets not at free disposal consist of deposits of the Foundation for the Management of Allocated Funds from the National High-Voltage Grid.

The movement in the value of these securities and deposits can be broken down as follows:

	2011	2010
Balance at 1 January	-	42,000
Additions	48,000	-
Repayments	-24,000	-42,000
Balance at 31 December	24,000	-
Long-term	-	-
Short-term	24,000	-
Total	24,000	-

The fair value of the deposits amounted to EUR 24.1 million (2010: nil), with an average effective interest rate of 1.2% (2010: nil).

The fair value of the non-freely tradable financial instruments (i.e. the 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).

The financial assets not at free disposal (comprising securities and deposits) can be attributed as follows to the various activities:

	2011	2010
Maintenance of energy balance between supply and demand	24,000	-
Balance at 31 December	24,000	-

5. Deferred income tax assets

The deferred income tax assets relate to temporary differences between the fiscal and carrying values of the non-current assets, financial instruments and provisions, and to losses which qualify for forward loss compensation.

Deferred income tax assets and liabilities are presented on a net basis insofar as legally enforceable entitlements exist and the taxes are imposed by the same authority.

The movement in the deferred income tax assets can be broken down as follows:

	Non-current assets	Losses available for forward loss compensation	Financial instruments	Provisions	Total
Balance at 1 January 2011	33,619	669	1,452	4,801	40,541
Change from assets to liabilities	554	-	-	-	554
Recognised in the profit-and-loss account	13,576	1,646	8,227	135	23,584
Recognised in other comprehensive income	-	-	-2,170	-	-2,170
Transfer to held for sale	-409	-460	-	-	-869
To current positions	-	-147	-	-20	-167
Balance at 31 December 2011	47,340	1,708	7,509	4,916	61,473

	Non-current assets	Losses available for forward loss compensation	Financial instruments	Provisions	Total
Balance at 1 January 2010	21,493	940	715	6,607	29,755
Initial value	75	-	-	-	75
Recognised in the profit-and-loss account	14,273	-373	-	-1,806	12,094
Recognised in other comprehensive income	-	-	737	-	737
Exchange rate differences	-	-7	-	-	-7
To current positions	-2,222	109	-	-	-2,113
Balance at 31 December 2010	33,619	669	1,452	4,801	40,541

The total of the deferred income tax assets mainly relates to the tangible fixed assets within the 380 kV grid and the 150 kV grid. Realisation of the deferred income tax assets will take place principally during the remaining useful lives of the tangible fixed assets. This means that the deferred income tax assets are predominantly long-term in character.

The increase in non-current assets mainly relates to the lower fiscal depreciation. The accelerated fiscal depreciation for the year 2011 has not been taken into account due to the fact that the information is not yet available.

The Group has restricted fiscal losses available for forward loss compensation totalling EUR 0.79 million (2010: EUR 1.8 million), for which no deferred income tax asset has been created because it is not certain that such an asset would be realised. The term of limitation is 2019/2020.

6. Receivables related parties

	NOVEC B.V.	TenneT TSO GmbH	Total 2011	Total 2010
Loan to Mobile Radio Networks Vehicle B.V.	5,673	-	5,673	9,669
Loan to European Market Coupling Company GmbH	-	250	250	-
Balance at 31 December	5,673	250	5,923	9,669

On 29 September 2010, NOVEC B.V. granted a loan of EUR 8.1 million to Mobile Radio Networks Vehicle B.V. (MRNV) with an annual interest rate of 5.2%. MRNV is an indirect participation of TenneT Holding B.V. During 2011 EUR 4.0 million had been redeemed. The remaining part of the loan will either be redeemed before 31 December 2012 or converted into a new credit facility.

On 29 September 2010, NOVEC B.V. also granted a subordinated loan of EUR 1.6 million to MRNV with an annual interest rate of 11.4%. The loan will be redeemed no later than 31 December 2025. The rights to the repayment of the loan and the related interest and costs are subordinated by rights of NIBC Bank N.V. under the credit facility, in accordance with the relevant Intercreditor Agreement conditions.

7. Other receivables

The other receivables relate to the redemption of long-term ground leases, rent paid in advance, and fees for credit facilities available in the 2009-2015 period.

The movement in the value of these receivables can be broken down as follows:

	2011	2010
Balance at 1 January	20,970	14,842
Initial recognition of companies acquired	-	1,239
Prepayments and other receivables	1,125	7,181
Additions	580	-
Charged against the profit-and-loss account	-2,202	-2,292
Other movements	-304	-
Balance at 31 December	20,169	20,970
Long-term	18,208	18,776
Short-term	1,961	2,194
Balance at 31 December	20,169	20,970

Each year, part of the value of the other receivables (calculated in accordance with the effective interest method) is charged against the profit-and-loss account; the breakdown is as follows:

	<1 year	1-5 years	>5 years	Total
At 31 December 2011	1,961	7,815	10,393	20,169
At 31 December 2010	2,194	7,918	10,858	20,970

8. Inventory

The inventory consists of warehouse stocks. The value of this item at year-end 2011 was EUR 8.4 million (2010: EUR 13.5 million). The warehouse stocks are held mainly in connection with maintenance of TenneT's own grid and the grids of third parties. Additionally, the inventory consists of work in progress amounting to EUR 1.7 million (2010: EUR 9.8 million). Work in progress projects for which instalments already invoiced exceed costs incurred are recognised under short-term liabilities and amount to EUR 0.9 million (2010: EUR 2.3 million).

9. Accounts receivable and other receivables

The accounts receivable and other receivables can be broken down as follows:

	2011	2010
Accounts receivable	365,537	343,663
EEG trade debtors	78,184	527,451
Amounts to be invoiced	44,030	34,716
Amounts to be invoiced EEG trade debtors	681,474	660,975
Amounts due from shareholder	300,000	-
Interest receivable	5,533	3,447
Taxes	57,033	69,288
Amounts receivable from TSOs	4,318	3,145
Amounts receivable in connection with market coupling	-	32,228
Short-term part of long-term other receivables	1,961	2,194
Other	48,743	31,399
Total	1,586,813	1,708,506

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 expected to be received in the second quarter of 2012. The capital contribution takes place as additional share premium, without issuing additional shares. The capital contribution is received by TenneT Holding B.V. and subsequently transferred to TenneT TSO B.V. as additional share premium. The Dutch State has stipulated that the proceeds from the capital contribution can only be used for Dutch regulated activities.

TenneT runs no credit risk on its accounts receivable as potential losses are expected to be compensated in the tariffs for the next periods. TenneT also 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 fair value of the receivables equals the carrying value presented here. All amounts are short-term. No valuation allowance has been created (2010: EUR 0.4 million).

The ageing analysis of the accounts receivable in 2011 and 2010 and the movement in the valuation allowance are presented below:

	Before due date	0-30 days	31-60 days	>60 days	Provision	Total
At 31 December 2011	342,761	7,831	1,671	13,274	-	365,537
At 31 December 2010	208,213	40,432	52,962	42,459	-403	343,663

Based on past experience, TenneT expects that the unprovided invoices that have exceeded their due date will be paid. At balance sheet date, none of the other receivables had exceeded their due date. The valuation allowance is calculated in accordance with the static method, based on the estimated probability of collection. The movement in the valuation allowance was as follows:

	2011	2010
Balance at 1 January	403	507
Withdrawals	-403	-104
Balance at 31 December	-	403

Other receivables are all classified as 'before due date'. Please refer to chapter 4 'Financial risk management' for an analysis of credit risk.

10. Accounts receivable in connection with energy exchange transactions

The accounts receivable in connection with energy exchange transactions (2011: EUR 290.1 million; 2010: EUR 188.2 million) relate to commercial transactions effected by APX Commodities Ltd. Such transactions involve the contract-based sale and purchase of energy and give rise to corresponding receivables and liabilities, which are cleared approximately one month after the month in which the transaction took place. The receivables are backed by a system of securities comprising bank guarantees and collaterals. The credit risk is relatively concentrated, since 42% of the receivables are owed by five traders (2010: 68%). All receivables were settled in February 2012.

The accounts receivable in connection with energy exchange transactions as of 31 December 2011 amounting to EUR 290.1 million relate to APX-ENDEX and are therefore included in the balance sheet under 'Non-current assets and assets of disposal group classified as held for sale'. Also refer to chapter 1 'Main developments and changes in structure of TenneT Holding B.V.'.

11. Derivative financial instruments

Derivative financial instruments can be broken down as follows:

	2011		2010	
	Assets	Liabilities	Assets	Liabilities
Forward Starting Interest Rate Swaps - cash flow hedges	-	-	10,649	-
Long-term	-	-	-	-
Short-term	-	-	10,649	-

Swaps

During 2011, Interest Rate Swaps were entered into in order to cover the risk of future market value volatility associated with debt instruments amounting to EUR 500 million. These Interest Rate Swaps were classified as fair value hedges. The fair values of these Interest Rate Swap contracts have been calculated using discounted cash flow valuation methods, on the basis of the market conditions prevailing on the balance sheet date. As of 31 December 2011, all these Interest Rate Swaps were sold and none are remaining. The cumulative result of these Interest Rate Swaps had been recorded in the valuation of the bonds and will be amortised over the remaining term of the original Interest Rate Swaps.

During 2010, Forward Starting Interest Rate Swaps (FSIRS) were entered into in order to cover the risk of future interest rate volatility associated with debt instruments amounting to EUR 500 million. These FSIRS were classified as cash flow hedges. The fair values of these FSIRS contracts have been calculated using discounted cash flow valuation methods, on the basis of the market conditions prevailing on the balance sheet date. As of 31 December 2011, all these FSIRS were sold and none are remaining. The cumulative result of these FSIRS had been recorded in equity in the Statement of Comprehensive Income and will be amortised over the remaining term of the original FSIRS. The average yearly amortisation amounts to EUR 0.4 million for a remaining period of 10 years.

12. Cash and cash equivalents (excluding bank overdrafts)

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

	Collateral securities	Short-term bank deposits	Cash at bank	Total 2011
Funds not at free disposal:				
- Auctioning of capacity	33	-	1,171	1,204
- Maintenance of energy balance between supply and demand	36,440	-	4,619	41,059
Funds at free disposal	-	609,985	57,819	667,804
Total at 31 December 2011	36,473	609,985	63,609	710,067

	Collateral securities	Short-term bank deposits	Cash at bank	Total 2010
Funds not at free disposal:				
- APX-ENDEX	681,794	-	-	681,794
- Auctioning of capacity	15,724	-	7	15,731
- Maintenance of energy balance between supply and demand	26,557	-	27,931	54,488
Funds at free disposal	-	-	16,568	16,568
Total at 31 December 2010	724,075	-	44,506	768,581

The cash and cash equivalents relating to APX-ENDEX as of 31 December 2011 amounting to EUR 578.6 million are included in the balance sheet under 'Non-current assets and assets of disposal group classified as held for sale'. This amount consists of collateral securities amounting to EUR 565.9 million, cash at bank not at free disposal amounting to EUR 3.5 million and cash at bank at free disposal amounting to EUR 9.2 million. Also refer to chapter 1 'Main developments and changes in structure of TenneT Holding B.V.'.

APX-ENDEX receives carbon certificates as collateral. The certificates are valued at their market value. As of 31 December 2011 the market value of these carbon certificates amounted to nil (2010: EUR 37.9 million) as no carbon certificates are held by APX-ENDEX anymore. As of 31 December 2010, this amount was included in the energy exchange activities of APX-ENDEX. During 2011, APX-ENDEX ended its exchange activities with respect to carbon certificates.

Cash and cash equivalents reconcile to the cash flow statement as follows:

	2011	2010
Cash and cash equivalents	710,067	768,581
Bank overdrafts	-	-82,082
Cash and cash equivalents included in non-current assets and assets of disposal group classified as held for sale	578,564	-
Total	1,288,631	686,499

13. Non-current assets and disposal group classified as held for sale

Management and the shareholders (TenneT currently holds approximately 56%) of APX-ENDEX are exploring strategic partnerships for APX-ENDEX. Such a partnership might result in new business combinations resulting in a decrease of TenneT's interest below 50%.

From an accounting perspective this leads to the conclusion that TenneT will lose control and as a result the aggregate APX-ENDEX assets and liabilities are presented, under IFRS 5 par 8A, as held for sale. As APX-ENDEX business as a whole does not represent a major line of business in the context of IFRS 5, TenneT does not report APX-ENDEX as a discontinued operation.

The assets of APX-ENDEX amount to EUR 919.4 million. The liabilities of APX-ENDEX amount to EUR 880.8 million. No gain or loss is recognised for this disposal group during 2011. Also refer to chapter 1 'Main developments and changes in structure of TenneT Holding B.V.'.

Furthermore TenneT expects to sell certain transformers within one year after the balance sheet date, these transformers have been reclassified to non-current assets held for sale amounting to EUR 4.7 million. As the expected fair value less costs to sell is higher than the carrying value, these assets are valued at their carrying value.

14. Equity

Share capital

On the balance sheet date, the company's authorised share capital amounted to EUR 500 million, divided into one million shares of EUR 500 each. Of these shares, two hundred thousand have been issued and paid-up. There was no change in this item during the year under review.

Share premium reserve

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 expected to be received in the second quarter of 2012. The capital contribution takes place without issuing shares. The capital contribution is received by TenneT Holding B.V. and subsequently transferred as share premium reserve to TenneT TSO B.V. The Dutch State has stipulated that the proceeds from the capital contribution can only be used for Dutch activities.

Hedging reserve

The hedging reserve relates to the cumulative result of the sold 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.

Reserve for exchange rate differences

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 cumulative reserve for exchange rate differences includes EUR 1.9 million cumulative negative exchange rate differences of APX-ENDEX.

Dividend proposal

Management has proposed to pay a dividend of EUR 60.0 million (2010: EUR 20.0 million) to the shareholder. The proposed dividend per share is EUR 300.0 (2010: EUR 100.0). In 2011, TenneT additionally proposes to pay a distribution to the holders of the hybrid securities of EUR 19.4 million for the period between 1 June 2011 and 31 December 2011 (2010: EUR 29.7 million for the period between 9 February 2010 and 31 December 2010) considering that the proposed dividend to the shareholder will be approved. The proposed amount payable at 1 June 2012 amounts to EUR 33.3 million and covers the period 1 June 2011 until 31 May 2012 (2010: EUR 43.6 million that covered the period 9 February 2010 until 31 May 2011).

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.

	2011	2010
Profit for the year attributable to equity holders of the company (x EUR 1,000)	198,404	76,152
Weighted average number of ordinary shares in issue (thousands)	200	200
Basic and diluted earnings per share (x EUR)	992	381

Non-controlling interest

The non-controlling interest relates to 43.95% of the shares in APX-ENDEX Holding B.V., held by N.V. Nederlandse Gasunie (20.95%), Fluxys S.A. (3.00%) and Elia System Operator S.A. (20.00%).

TenneT Holding B.V. had a controlling interest of 70.065% in subsidiary APX-ENDEX Holding B.V. as of 1 January 2010. APX-ENDEX Holding B.V. issued new shares as of 13 October 2010. TenneT Holding B.V. did not participate. As a result, TenneT Holding B.V. has a controlling interest of 56.05% in subsidiary APX-ENDEX Holding B.V. as of 13 October 2010. Elia System Operator S.A. deposited an additional paid-in surplus (share premium) in APX-ENDEX Holding B.V. This change in ownership did not result in a loss of control. As a result this transaction has been accounted for as an equity transaction. This had a positive impact on the equity as of 31 December 2010 of TenneT Holding B.V.

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'). 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.

15. Borrowings

The movement in the borrowings was as follows:

	Commercial paper	Bonds	EIB loans	Other loans	Total 2011	Total 2010
Balance at 1 January	627,592	1,185,601	363,590	157,500	2,334,283	1,232,662
New borrowings		1,000,000	-	-	1,000,000	2,792,684
Fair value adjustment	-	27,636	-	-	27,636	-
Amortisation	-	361	-	-	361	-1,751
Credit facility fees paid in advance	-	-2,593	-	-	-2,593	2,288
Repayments	-627,592	-	-17,180	-112,500	-757,272	-1,691,600
Transfer to held for sale	-	-	-	-5,000	-5,000	-
Balance at 31 December	-	2,211,005	346,410	40,000	2,597,415	2,334,283
Long-term	-	2,211,005	329,230	40,000	2,580,235	1,572,011
Short-term	-	-	17,180	-	17,180	762,272
Total	-	2,211,005	346,410	40,000	2,597,415	2,334,283

Long-term credit facilities

TenneT's committed long-term credit facilities amounted to EUR 2,736.4 million at 31 December 2011 (EUR 1,608.6 million at 31 December 2010). A sum of EUR 2,586.4 million (2010: EUR 1,603.6 million) has been drawn from these facilities.

Of this amount, EUR 2,569.2 million had a contractual term of more than one year at 31 December 2011 (EUR 1,582.1 million at 31 December 2010), while EUR 17.2 million (2010: EUR 26.5 million) had a contractual term of less than one year.

The long-term portion of the credit facilities consists of five bond loans and four EIB loans, all taken out with the European Investment Bank (EIB), and a four-year loan of EUR 40.0 million.

The bond loans were concluded at coupon rates of 3.25% (contractual term of five years, EUR 500 million, maturity date 2015), 4.50% (contractual term of 12 years, EUR 500 million, maturity date 2022), 4.75% (contractual term of 20 years, EUR 200 million, maturity date 2030), 3.875% (contractual term of seven years, EUR 500 million, maturity date 2018) and 4.625% (contractual term of 12 years, EUR 500 million, maturity date 2023). The fair value of the bonds amounts to EUR 2,332.4 million (2010: EUR 1,222.5 million). The fair value is based on stock exchange listings.

The fair value adjustment of the bonds mainly relates to the Interest Rate Swaps that were classified as fair value hedges. As of 31 December 2011, all these Interest Rate Swaps were sold. The cumulative result of these Interest Rate Swaps had been recorded in the valuation of the bonds and will be amortised over the remaining term of the original Interest Rate Swaps. The yearly amortisation with respect to the Interest Rate Swaps amounts to EUR 4.9 million for a remaining period of 7 years. Besides, this fair value adjustment relates to the transaction costs which had been included in the bond and the difference between the issue price and the nominal price of the bonds issued in

2011. The amortisation for the year 2011 consists of amortisation with respect to the transaction costs amounting to EUR 0.8 million and amortisation with respect to the difference between the issue price and the nominal price of the bonds amounting to EUR 1.2 million, partly compensated by amortisation with respect to Interest Rate Swaps amounting to EUR 1.6 million.

The EIB loans were concluded at fixed interest rates of 4.4% (EUR 36.6 million, maturity date 2021), 4.7% (EUR 36.9 million, maturity date 2022), 4.4% (EUR 140.0 million, maturity date 2023) and 4.1% (EUR 150.0 million, maturity date 2021). The fair value of the EIB loans amounts to EUR 371.9 million (2010: EUR 378.7 million). The four-year loan of EUR 40.0 million was concluded at a fixed interest rate of 3.31% and matures in 2013. This loan has a fair value of EUR 41.3 million (2010: EUR 41.4 million). The fair value of the loans has been calculated using discounted cash flow valuation methods, on the basis of the market conditions prevailing on the balance sheet date.

The terms and conditions of the loans include negative pledge and pari passu clauses. No security has been provided.

Short-term credit facilities

TenneT has short-term credit facilities with a total value of EUR 430.0 million at its disposal. Of this amount, a sum of EUR 30.0 million is committed and EUR 400.0 million is uncommitted. 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, no amounts (2010: EUR 82.1 million) had been drawn from these facilities. The short-term part of the EIB-loans amounted to EUR 17.2 million (2010: EUR 17.2 million).

In 2010, TenneT also refinanced its revolving credit facility and not only increased the total amount to EUR 1,125.0 million, but also expanded its contractual term to five years. The revolving credit facility was arranged with an international group of banks consisting of Barclays, Bank Nederlandse Gemeenten (BNG), BNP Paribas, Deutsche Bank, Fortis (Netherlands), ING, Lloyds, Rabobank and Royal Bank of Scotland (RBS). Amounts may be drawn from the revolving credit facility based on the EURIBOR interest rates that correspond with the term of such drawing. At 31 December 2011, the full revolving credit facility was undrawn. The term of this committed revolving credit facility was extended by one year in August 2011 to August 2016.

In 2010, TenneT set up a commercial paper programme. As of 31 December 2011, no amounts (31 December 2010: EUR 628.0 million) were issued under this programme.

APX-ENDEX Holding B.V. has EUR 16.1 million of undrawn borrowing facilities, all floating rate and expiring within one year. All borrowing has an exposure to interest changes of three months or less. The bank overdraft facility is a group facility, and all APX-ENDEX group entities are able to draw upon it. Besides, APX-ENDEX Holding B.V. has a short-term loan of EUR 5.0 million (2010: EUR 5.0 million). The loan taken in 2010 has been extended in 2011 and is repayable within 1 year, with an interest rate at 1-month Euribor plus 2.5%. The short-term loan of APX-ENDEX amounting to EUR 5.0 million is included in the balance sheet under 'Liabilities of disposal group classified as held for sale'. Also refer to chapter 1 'Main developments and changes in structure of TenneT Holding B.V.'.

16. Investment contributions

The investment contributions relate to capital expenditure and associated operating expenses, which are financed using auction revenues (with the approval of the Office of Energy Regulation). Interest (at a rate of 6.0% (2010: 5.41%)) is added to the present value of the payments for operating expenses, in accordance with the guidelines of the Dutch Office of Energy Regulation.

In Germany, the investment contributions include contributions to construction costs paid by business partners.

The movement in the value of the investment contributions was as follows:

	2011	2010
Balance at 1 January	390,824	349,661
Initial recognition of companies acquired	-	58,859
Additions	3,875	7,282
Adjustment decision Office of Energy Regulation CAPEX System Operator	217	-6,307
Interest	512	647
<i>Amortisation (profit-and-loss account):</i>		
- Depreciation	-15,739	-16,493
- Maintenance costs	-	-157
Other changes	5,406	-2,668
Balance at 31 December	385,095	390,824
Long-term	369,808	378,888
Short-term	15,287	11,936
Total	385,095	390,824

Adjustment decision Office of Energy Regulation CAPEX System Operator

The Office of Energy Regulation defined the first Method Decision on system operator activities for the 2011-2013 period. As a result, the CAPEX-fee received in advance on capital expenditures relating to system operator activities in 2008 has to be passed on in the tariffs. TenneT TSO B.V. recognised this as such. Capital expenditures for system operator activities are recognised in regulated assets value for system operator activities.

The amortisation recognised in the profit-and-loss account has been presented under 'Other income'.

The terms of the investment contributions are as follows:

	<1 year	1-5 years	>5 years	Total
At 31 December 2011	15,287	60,154	309,654	385,095
At 31 December 2010	11,936	52,073	326,815	390,824

17. Auction receipts

TenneT TSO B.V. auctions the available capacity on the cross-border connections. The resulting receipts are not at free disposal and are managed by the Foundation for the Management of Allocated Funds from the National High-Voltage Grid. Funds held by the Foundation may be disbursed only as authorised by the Office of Energy Regulation. The interest which is added to the auction receipts includes the returns of the investments in TenneT TSO Duitsland B.V. plus the received call option premium minus the paid interest for the loan from TenneT Orange B.V. and minus the paid put option premium.

	2011	2010
Balance at 1 January	319,056	292,343
Additions of auction receipts/market coupling	66,151	30,013
Interest	10,827	1,069
Withdrawals	-19,491	-4,369
Balance at 31 December	376,543	319,056
Long-term	376,543	319,056
Short-term	-	-
Total	376,543	319,056

Additions of auction receipts

Additions of auction receipts relates to capacity auction receipts, including market coupling, of cross-border connections and the NorNed cable.

The other withdrawals from the 2011 auction receipts mainly consist of new reimbursements of the NorNed cable operating expenses and a reimbursement of energy and capacity expenses.

The other withdrawals from the 2010 auction receipts mainly consist of a reimbursement of the NorNed cable operating expenses and a reimbursement of energy and capacity expenses.

The terms of the auction receipts depend on the fact whether or not the Office of Energy Regulation has made decisions that lead to future investments and expenses of TenneT that can be withdrawn from auction receipts. Such decisions usually take longer than one year. Therefore the auction receipts are classified in the range of 1 to 5 years:

	<1 year	1-5 years	>5 years	Total
At 31 December 2011	-	376,543	-	376,543
At 31 December 2010	-	319,056	-	319,056

18. Provisions

The movements in the provisions can be broken down as follows:

	Environ- mental management and decom- missioning	Payment obligations	Personnel redundan- cies	Long- service bonuses	Health insurance premiums	Loss- incurring activities	Pension provision	Total
Balance at 1 January 2011	56,538	78,989	3,898	7,874	722	-	18,283	166,304
Additions recognised in the profit-and-loss account	10,399	24,797	724	1,009	-	-	4,966	41,895
Additions recognised in assets	6,887	-	-	-	-	-	-	6,887
Additions recognised in other comprehensive income	-	-	-	-	-	-	9,664	9,664
Release recognised in the profit-and-loss account	-	-14,644	-734	-348	-186	-	-	-15,912
Interest recognised in the profit-and-loss account	1,741	1,566	294	322	26	-	3,864	7,813
Withdrawals	-2,068	-17,860	-1,303	-331	-	-	-100	-21,662
VKE asset	-	-	-	-	-	-	-3,635	-3,635
Other changes	-471	-14	-	-	-84	-	-4,332	-4,901
Balance at 31 December 2011	73,026	72,834	2,879	8,526	478	-	28,710	186,453
Long-term	66,626	19,004	1,688	7,482	478	-	28,494	123,772
Short-term	6,400	53,830	1,191	1,044	-	-	216	62,681
Total	73,026	72,834	2,879	8,526	478	-	28,710	186,453

	Environ- mental management and decom- missioning	Payment obligations	Personnel redundan- cies	Long- service bonuses	Health insurance premiums	Loss- incurring activities	Pension provision	Total
Balance at 1 January 2010	15,421	-	289	4,159	801	15,000	-	35,670
Additions following acquisitions	40,762	97,644	6,198	2,886	-	-	8,970	156,460
Additions recognised in the profit-and-loss account	4,530	18,171	1,536	1,034	60	-	2,625	27,956
Additions recognised in other comprehensive income	-	-	-	-	-	-	5,594	5,594
Release recognised in the profit-and-loss account	-1,716	-30,468	-1,564	-21	-133	-	-	-33,902
Interest recognised in the profit-and-loss account	-121	-471	117	302	32	-	1,139	998
Withdrawals	-2,419	-5,887	-907	-510	-38	-15,000	-45	-24,806
Other changes	81	-	-1,771	24	-	-	-	-1,666
Balance at 31 December 2010	56,538	78,989	3,898	7,874	722	-	18,283	166,304
Long-term	53,805	26,473	3,837	7,415	622	-	18,283	110,435
Short-term	2,733	52,516	61	459	100	-	-	55,869
Total	56,538	78,989	3,898	7,874	722	-	18,283	166,304

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. The provision has been stated at present value. The main assumptions made in this context concern the future price level and a discounting rate of 4% (2010: 4%).

Payment Obligations

Payment obligations mainly consist of:

KWK-G (old)

The KWK-G (old) is a former version (until the year 2002) of the current law KWK-G. Like the current KWK-G, the KWK-G (old) defined criteria which have to be met by power plants. Operators of those plants claimed for surcharges that were not recognised at the time because in the opinion of TenneT TSO GmbH or the relevant other TSO they did not fulfil the criteria.

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. Should the costs prove higher than the provision, the surplus will be charged to the profit-and-loss account.

Preplanning Costs Offshore

It is prescribed by Law that preplanning costs of offshore power plant connections should be paid by the relevant TSO to the companies who planned to build an own offshore connection before the law was changed in 2006 and the TSOs became responsible for the construction of the offshore connections. All amounts which should be paid back but are not related to power plant connections which were build or planned by TenneT Offshore GmbH were added to this provision.

Individual Grid tariffs

The individual grid tariffs obligation consists of the obligation to pay the grid revenues partly back to special grid users. Some grid users ask the BNetzA for individual grid tariffs. If these special grid users meet the criteria, it is possible that they have to pay less than regular grid users. The amount which has to be given back (reduction) is not fixed and there is a probability that the customer does not get approval for the individual grid fees.

Payments for Grid tariffs made under restriction

In 2004/2005 TenneT TSO GmbH increased the grid tariffs. Some customers paid their grid fee invoices under the restriction that they want their money back if later the grid tariffs are reviewed by BNetzA and considered as being too high. In the years 2004/2005 the calculation of the grid tariffs was not reviewed by the BNetzA so there is no official approval for these tariffs.

Personnel provisions

Personnel redundancies

The provision for personnel redundancies serves to cover the costs of redundancies for which the liabilities were incurred before the balance sheet date. In Germany, the provision comprises mainly obligations for retirement.

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 discounting rate of 4.0%.

Health insurance premium

Future liabilities exist with regard to the payment of health insurance premiums on behalf of company pensioners. The size of the associated provision has been calculated on the basis of the Collective Labour Agreement and actuarial principles. The main assumptions made in this context concern no annual premium increase and a discounting rate of 4.0%.

Loss-incurring activities

The provision for loss-incurring activities serves to cover the unavoidable losses resulting from the legally enforceable obligation (under the Independent Grid Administration Act) to manage the 110 kV and 150 kV grids. The provision has been stated at present value. The provision has been utilised in full in 2010.

Pension provision

The amounts recognised in the balance sheet are as follows:

	2011	2010
Defined benefit obligation	89,819	73,671
Plan assets at fair value	-61,109	-55,388
Liability in the balance sheet	28,710	18,283

The defined benefit obligations are partly covered by plan assets. These plan assets are held and administrated by the institutions Helaba, VKE and Südkasse.

The movement in the defined benefit obligation over the year is as follows:

	2011	2010
At 1 January	73,671	-
Acquisition German activities	-	64,180
Service cost	4,966	2,625
Interest cost	3,864	2,941
Actuarial losses	7,467	3,584
Payments from Fund	-	-4
Payments from Reserve	-149	345
At 31 December	89,819	73,671

The movement in the fair value of plan assets over the year is as follows:

	2011	2010
At 1 January	55,388	-
Acquisition German activities	-	54,319
Actual Return on Plan Assets	352	-208
Benefits paid by Fund	-	-4
VKE asset	3,635	-
Employer contributions paid	1,734	1,281
At 31 December	61,109	55,388

The amounts recognised in the statement of comprehensive income are as follows:

	2011	2010
Current Service Cost	4,966	2,625
Interest cost	3,864	2,941
Return on Plan Assets	-2,549	-1,802
Defined Benefit Expense	6,281	3,764

The principal actuarial assumptions were as follows:

	2011	2010
Discount rate	4.75%	5.25%
Inflation rate	2.00%	2.00%
Expected return on plan assets	4.30%	4.71%
Future salary increases	2.50%	2.75%
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.

19. Deferred income tax liabilities

The movement in the deferred income tax liabilities was as follows:

	Non-current assets	Provisions	Financial instruments	Receivables/payables	Total
Balance at 1 January 2011	173,043	82,325	-	-3,072	252,296
Change from assets to liabilities	554	-	-	-	554
Recognised in the profit-and-loss account	8,765	25,729	1,521	-817	35,198
Recognised in other comprehensive income	-	-2,899	-	-	-2,899
Transfer to held for sale	-6,195	-	-	-	-6,195
To current position	-1,358	-	-	-	-1,358
Balance at 31 December 2011	174,809	105,155	1,521	-3,889	277,596

	Non-current assets	Provisions	Financial instruments	Receivables/payables	Total
Balance at 1 January 2010	5,301	-	-	-	5,301
Initial valuation Belpex S.A.	3,975	-	-	-	3,975
Initial valuation transpower stromübertragungs gmbh	160,671	59,555	-	7,548	227,774
Recognised in the profit-and-loss account	3,113	24,551	-	-10,620	17,044
Recognised in other comprehensive income	-	-1,781	-	-	-1,781
To current position	-17	-	-	-	-17
Balance at 31 December 2010	173,043	82,325	-	-3,072	252,296

The deferred income tax liabilities of EUR 105.2 million (2010: EUR 82.3 million) relating to provisions are explained by the fact that the fiscal balance sheet holds liabilities that are not recognised as such under IFRS.

20. Other liabilities

	2011	2010
Amounts received in advance	6,651	7,250
Long-term deferred income	8,167	9,183
EEG liabilities	17,300	-
Other	3,385	-
Total	35,503	16,433

Amounts received in advance

Amounts received in advance consist of reservations fees received in advance regarding German law KraftNAV. Power plants have to pay a reservation fee per megawatt if they want a new connection to the grid of TenneT TSO GmbH.

Long-term deferred income

Long-term deferred income consists of deferred income for a service contract with Deutsche Bahn AG. The contract period is 10 years. The amount is released to the profit-and-loss account over the remaining contractual period.

EEG liabilities

The amount consists of long-term EEG liabilities for final settlements of EEG 2008 and 2009 with E.ON Bayern to be settled in 2013.

Other

The amount mainly relates to prepaid rent and is released to the profit-and-loss account over the remaining contractual period.

21. To be settled in tariffs

The movement in amounts to be settled in tariffs was as follows:

	To be set off against tariffs charged in later years	Maintenance of energy balance between supply and demand	Payments from power-generating companies for cross-border capacity	Total
Balance at 1 January 2011	20,392	16,614	-	37,006
To be settled in future tariffs	-45,922	20,067	-	-25,855
Interest	-22	230	-	208
Settled in present tariffs	34,497	-13,827	-	20,670
Balance at 31 December 2011	8,945	23,084	-	32,029
Balance at 1 January 2010	-20,124	21,419	15	1,310
To be settled in future tariffs	23,116	39,112	-15	62,213
Interest	-6,324	119	-	-6,205
Settled in present tariffs	23,724	-44,036	-	-20,312
Balance at 31 December 2010	20,392	16,614	-	37,006

To be set off against tariffs charged in later years

The sum included under this heading concerns the discrepancy between the actual tariff revenue and the allowed revenue for the year under review. The amounts in question are taken into account when settling the tariffs charged to market parties in future years. The interest income in 2010 is explained by the fact that the years 2008 and 2009 were recalculated in 2010. This was not yet valued.

Maintenance of energy balance between supply and demand

One feature of the system of energy balance maintenance is that TenneT TSO B.V. receives annual payments which are taken into account when settling the tariffs payable for system services in future years.

22. Bank overdrafts

This item comprises credit granted by banks. As of 31 December 2011, TenneT did not use its credit facility granted by banks (as of 31 December 2010: EUR 82.1 million).

23. Accounts payable in connection with energy exchange transactions

The accounts payable in connection with energy exchange transactions amounting to EUR 290.1 million (2010: EUR 185.6 million) derive from the gas trading activities of APX Commodities Ltd.

The accounts payable in connection with energy exchange transactions as of 31 December 2011 amounting to EUR 290.1 million relate to APX-ENDEX and are therefore included in the balance sheet under 'Liabilities of disposal group classified as held for sale'. Also refer to chapter 1 'Main developments and changes in structure of TenneT Holding B.V.'.

24. Liabilities relating to collateral securities

The liabilities relate to collateral securities given by third parties to underwrite trading on energy exchanges and the auctioning of cross-border interconnection capacity. The liabilities relating to collateral securities can be attributed to the various activities as follows:

	2011	2010
Energy exchange activities of APX-ENDEX	-	681,793
Auctioning of capacity by TSO Auction B.V.	-	1,311
Auctioning of capacity on NorNed cable	33	14,413
Energy balance maintenance by TenneT TSO B.V.	36,440	26,558
Total	36,473	724,075

The liabilities relating to collateral securities for energy exchange activities of APX-ENDEX as of 31 December 2011 amounting to EUR 565.9 million are included in the balance sheet under 'Liabilities of disposal group classified as held for sale'. Also refer to chapter 1 'Main developments and changes in structure of TenneT Holding B.V.'.

25. Accounts payable and other liabilities

The accounts payable and other liabilities can be broken down as follows:

	2011	2010
Expenses payable in respect of transmission and system services	579,312	354,607
Accounts payable	54,844	98,980
EEG accounts payable	735,820	586,473
Taxation and social security contributions	45,296	15,225
Interest	81,687	46,451
Other	176,074	108,114
Transfer to held for sale	-13,673	-
Total	1,659,360	1,209,850

Financial instruments – Fair values and categories

The following table lists the items to which the accounting principles for valuation and recognition of financial instruments were applied.

Part of the amounts included in this table relate to APX-ENDEX and are therefore included in the balance sheet under 'Non-current assets and assets of disposal group classified as held for sale' respectively 'Liabilities of disposal group classified as held for sale'. Also refer to chapter 1 'Main developments and changes in structure of TenneT Holding B.V.'.

2011 (x EUR 1,000)

Classes	Note	Carrying value	Items other than financial assets/liabilities	Categories of financial instruments						Fair value
				Financial assets/liabilities recognised at fair value with changes in value recorded in P&L account	Loans and receivables/Other financial liabilities	Investments held until maturity	Financial assets available for sale	Derivatives used for hedging		
				Designated upon initial recognition	Held for trading purposes					
Financial assets										
Receivables not at free disposal	4	24,000	-	-	-	24,000	-	-	-	24,095
Available-for-sale financial assets	4	633	-	-	-	-	-	633	-	633
Total financial assets		24,633	-	-	-	24,000	-	633	-	24,728
Receivables										
Accounts receivable and other receivables	9	1,586,813	-	-	-	1,586,813	-	-	-	1,586,813
Accounts receivable in connection with energy exchange transactions	10	290,087	-	-	-	290,087	-	-	-	290,087
Total receivables		1,876,900	-	-	-	1,876,900	-	-	-	1,876,900
Cash and cash equivalents (excluding bank overdrafts)										
Collateral securities	12	602,360	-	-	-	602,360	-	-	-	602,360
Short-term bank deposits	12	609,985	-	-	-	609,985	-	-	-	609,985
Cash at bank	12	76,286	-	-	-	76,286	-	-	-	76,286
Total cash and cash equivalents (excluding bank overdrafts)		1,288,631	-	-	-	1,288,631	-	-	-	1,288,631
Total financial instrument assets		3,190,164	-	-	-	3,189,531	-	633	-	3,190,259
Financial liabilities										
Long-term liabilities										
Borrowings	15	2,580,235	-	-	-	2,580,235	-	-	-	2,728,372
EEG liabilities	20	17,300	-	-	-	17,300	-	-	-	17,300
Total long-term liabilities		2,597,535	-	-	-	2,597,535	-	-	-	2,745,672
Short-term liabilities										
Borrowings	15	22,180	-	-	-	22,180	-	-	-	22,180
Accounts payable in connection with energy exchange transactions	23	290,087	-	-	-	290,087	-	-	-	290,087
Liabilities relating to collateral securities	24	602,360	-	-	-	602,360	-	-	-	602,360
Accounts payable and other liabilities	25	1,673,033	-	-	-	1,673,033	-	-	-	1,673,033
Total short-term liabilities		2,587,660	-	-	-	2,587,660	-	-	-	2,587,660
Total financial instrument liabilities		5,185,195	-	-	-	5,185,195	-	-	-	5,333,332

2010 (x EUR 1,000)

Classes	Note	Carrying value	Items other than financial assets/ liabilities	Categories of financial instruments						Fair value
				Financial assets/ liabilities recognised at fair value with changes in value recorded in P&L account	Loans and receivables/ Other financial liabilities	Investments held until maturity	Financial assets available for sale	Derivatives used for hedging		
				Designated upon initial recognition	Held for trading purposes					
Financial assets										
Available-for-sale financial assets	4	682	-	-	-	-	682	-	-	682
Total financial assets		682	-	-	-	-	682	-	-	682
Receivables										
Accounts receivable and other receivables	9	1,708,506	-	-	-	1,708,506	-	-	-	1,708,506
Accounts receivable in connection with energy exchange transactions	10	188,194	-	-	-	188,194	-	-	-	188,194
Derivative financial instruments	11	10,649	-	-	-	-	-	10,649	-	10,649
Total receivables		1,907,349	-	-	-	1,896,700	-	-	10,649	1,907,349
Cash and cash equivalents (excluding bank overdrafts)										
Collateral securities	12	724,075	-	-	-	724,075	-	-	-	724,075
Cash at bank	12	44,506	-	-	-	44,506	-	-	-	44,506
Total cash and cash equivalents (excluding bank overdrafts)		768,581	-	-	-	768,581	-	-	-	768,581
Total financial instrument assets		2,676,612	-	-	-	2,665,281	-	682	10,649	2,676,612
Financial liabilities										
Long-term liabilities										
Borrowings	15	1,572,011	-	-	-	1,572,011	-	-	-	1,660,311
Total long-term liabilities		1,572,011	-	-	-	1,572,011	-	-	-	1,660,311
Short-term liabilities										
Borrowings	15	762,272	-	-	-	762,272	-	-	-	762,272
Bank overdrafts	22	82,082	-	-	-	82,082	-	-	-	82,082
Accounts payable in connection with energy exchange transactions	23	185,643	-	-	-	185,643	-	-	-	185,643
Liabilities relating to collateral securities	24	724,075	-	-	-	724,075	-	-	-	724,075
Accounts payable and other liabilities	25	1,209,850	-	-	-	1,209,850	-	-	-	1,209,850
Total short-term liabilities		2,963,922	-	-	-	2,963,922	-	-	-	2,963,922
Total financial instrument liabilities		4,535,933	-	-	-	4,535,933	-	-	-	4,624,233



Notes to the consolidated profit-and-loss account for the year 2011

(x EUR 1,000)

26. Revenue

Revenue can be broken down as follows:

	2011	2010
EEG Wind, biomass, sun	16,304	-
KWK Cogeneration	11,811	21,803
System services	154,421	166,719
Connection and transmission services	1,018,041	840,220
Maintenance of energy balance	107,730	131,482
Operation of energy exchanges	136,647	116,584
Interest income from collaterals	4,855	2,427
Revenue from market facilitation services	5,040	3,641
Revenue from other services	63,190	39,115
Work undertaken for third parties	7,143	484
	1,525,182	1,322,475

EEG Wind, biomass, sun

The renewable energy act (*Erneuerbare-Energien-Gesetz*, EEG) obliges system operators to convey renewable energies prior to other kinds of energies. The remuneration for the renewable energies that has to be paid to the plant operators is legally fixed. The energy infeed is sold at the energy exchange via service providers. Because of the fact that renewable energies are subsidised, the remuneration for the plant operators is significantly higher than the price achievable at the energy exchange. Therefore, an EEG surcharge shall cover the higher expenses. The EEG surcharge is added to the regular electricity price of the end customer and forwarded to the TSOs on a monthly basis. The impact on the result is in principle neutral except for the EEG bonus.

In 2011, the gross EEG revenues amount to EUR 8.1 billion and were EUR 16.3 million higher than the gross EEG expenses due to a received bonus for efficient transportation. In 2010 both gross EEG revenues and gross EEG expenses amounted to EUR 5.9 billion. In the 2011 financial statements these amounts are presented on a net basis in the profit-and-loss account lowering both revenues and operating expenses for the applicable amounts. The revenues from the bonus for efficient transportation in 2011 amounts to EUR 16.3 million (2010: nil) and remains presented as revenues.

KWK Cogeneration

Purpose of KWK-law (KWK-G) is to foster energy that is generated by the coupling of power and heat. Operators of KWK power plants receive higher fees from the TSO which are surcharged horizontally to the other TSOs and later on to the end customer via grid fees. The KWK-G revenues and KWK-G expenses are presented net.

In 2011, the gross KWK-G revenues amount to EUR 72.7 million (2010: EUR 108.8 million) and the gross KWK-G expenses amount to EUR 60.9 million (2010: EUR 87.0 million). Differences between KWK-G revenues and KWK-G expenses are caused by a release of the KWK-G old provision after TenneT TSO GmbH won law cases and remains to be presented as revenues. The release during 2011 amounted to EUR 11.8 million (2010: EUR 21.8 million).

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. Two regulatory mechanisms were used in 2010: revenue regulation for grids with a voltage level of 110 kV and higher, and budget regulation for system services. In 2011, only one regulatory mechanism is used being revenue regulation.

The increase is a result of the fact that TenneT won the Appeal against the Method Decision for the fourth regulatory period.

TenneT lodged an appeal with the Netherlands Trade and Industry Appeals Tribunal (CBb) to contest the Method Decision for the fourth regulatory period (2008-2010). In June 2010, the Tribunal ruled that TenneT's appeal is valid and that the Method Decision will be reversed. The Office of Energy Regulation must formulate a new Method Decision for the fourth regulatory period. TenneT won the appeal on the following grounds:

- no coverage of indirect operational costs of the 110 and 150 kV high-voltage grids managed by TenneT
- no full coverage of additional costs involved in the transfer of management of the high-voltage grids.

In the meantime, the Office of Energy Regulation made a draft request for the additional costs and the indirect operational costs. The final revised Method Decision resulted in an amount of EUR 136 million, of which EUR 116 million relates to 2011 and prior periods, which is included in revenue from connection and transmission services.

The increase in Germany is mainly caused by the fact that 2010 included ten months for Germany while 2011 included twelve months for 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) and income from the provision of cross-border interconnection capacity (cross-border tariffs).

Maintenance of energy balance

The revenue from maintenance of the energy balance between supply and demand is equal to the cost of purchasing the associated energy and capacity.

Operation of energy exchanges

This amount includes German 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-EINDEX.

Interest income from collaterals

Interest income from collaterals is the interest received on the cash collaterals provided to APX-EINDEX in relation to clearing services.

Revenue from market facilitation services

The revenue from market facilitation services consists of fees for authenticating electricity produced by environmentally friendly methods, operating subsidy schemes, and auctioning cross-border interconnection capacity for the German part.

Revenue from other services

The revenue from other services consists mainly of rent for the provision of sites and fibre-optic cable capacity for telecommunications and is mainly supplied to related parties (NOVEC B.V.). In Germany, the revenue from other services comprises sales of capacity regarding unintended exchange.

27. Energy and capacity expenses

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

	2011	2010
System services	310,189	274,954
Connection and transmission services	167,161	145,319
Maintenance of energy balance	107,730	131,482
Cross-border tariffs	-1,360	-1,271
	583,720	550,484

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. The revenue of the system services cannot be separated from the grid tariffs. Therefore the amounts under revenue and costs are not equal.

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.

Cross-border tariffs

The expenditure associated with cross-border tariffs relates to payments that the Netherlands has to make for the use of transmission grids in other countries. The expenses in question are settled through TenneT's transmission service tariffs.

28. 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:

	2011	2010
Systems for primary operating processes	6,920	3,180
Costs of maintaining and operating transmission grids	116,918	79,196
Addition to/release from the provision for environmental management and decommissioning	10,399	2,814
	134,237	85,190

Costs of maintaining and operating transmission grids

The increase relates to the fact that TenneT expects invoices from Liander and Stedin for an estimated aggregate amount of EUR 25 million of expenses with respect to transmission tariffs. Furthermore, the increase is caused by the fact that 2010 included ten months for Germany while 2011 included twelve months for Germany.

Addition to/release from the provision for environmental management and decommissioning

The addition was a result of the fact that for a higher number of pylons the lead-containing paints should be removed in Germany.

29. Personnel expenses

The personnel expenses can be broken down as follows:

	2011	2010
Salaries	145,791	120,566
Social security contributions	16,842	13,334
Pension charges	10,254	9,515
Other personnel expenses	4,769	8,211
Addition to the personnel provision	5,431	3,537
Capitalised costs for tangible fixed assets	-53,677	-43,083
	129,410	112,080

In 2011, the average workforce amounted to 2,188 FTEs (2010: 1,867 FTEs), of whom 1,261 FTEs were employed in the Netherlands (2010: 1,053 FTEs).

Remuneration of members of the Management Board and Supervisory Board

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

	Fixed remuneration	Variable remuneration	Pension contributions	Total
2011	886	336	361	1,583
2010	1,032	343	351	1,726

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

The remuneration of the company's supervisory directors was as follows in the year under review:

Fixed remuneration	Committee fee	Total 2011	Fixed remuneration	Committee fee	Total 2010
104	43	147	99	24	123

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

30. Depreciation and amortisation of assets and impairments

The depreciation and amortisation of assets can be broken down as follows:

	2011	2010
Depreciation of tangible fixed assets	192,769	169,130
Amortisation of intangible assets	26,420	11,561
	219,189	180,691

The impairments can be broken down as follows:

	2011	2010
Impairments 220/380 kV grid	-	134,400
Reversal impairment NorNed	-2,468	-3,024
	-2,468	131,376

For further information on impairments, please refer to note 1 Tangible fixed assets.

31. Other losses/(gains) - net

	2011	2010
Sale of transformers	-8,992	-
Sale pylons NOVEC B.V.	-1,810	-
Share in the result of Capacity Allocation Service Company.EU S.A.	-161	-
Other gains and losses	320	-881
	-10,643	-881

NOVEC B.V. sold several pylons during 2011 resulting in a total gain of EUR 1.8 million.

32. Other operating expenses

Other operating expenses can be broken down as follows:

	2011	2010
Accommodation and office expenses	51,768	37,095
Consultancy expenses	15,125	20,132
Hiring of temporary personnel	16,917	24,607
Travel and subsistence expenses	12,828	11,482
Research expenses	2,871	1,449
Other operating expenses	31,239	27,631
	130,748	122,396

Auditor's fees have also been recognised under 'Other operating expenses'.

This concerns the fees charged by PricewaterhouseCoopers Accountants N.V. and other PricewaterhouseCoopers network firms:

	2011	2010
Audit of year-end and interim financial statements	1,479	1,230
Regulatory audits, IT-audits and other assurance services	1,457	864
Tax consultancy	320	497
Other services	62	144
	3,318	2,735

33. Finance income and expenses

The finance income can be broken down as follows:

	2011	2010
Interest on assets under construction	44,639	30,182
Other interest income	20,763	14,058
Finance income	65,402	44,240

The interest income on funds administered by the Foundation for the Management of Allocated Funds from the National High-Voltage Grid has been added directly to the funds in question. The total interest income was EUR 0.6 million (2010: EUR 1.0 million).

The finance expenses can be broken down as follows:

	2011	2010
Borrowings and credit facilities	100,077	67,900
Other interest expenses	12,655	10,566
Interest on provisions	7,813	998
Finance expenses	120,545	79,464

The average effective rate of interest payable on long-term loans was 4.0% (2010: 4.3%).

With respect to the fair value hedge: the gain on mark-to-market movement of the fair value hedge and the loss on the fair value of the hedged item amounted to EUR 31.7 million.

With respect to the cash flow hedge, an amount of EUR 0.9 million was released from the hedging reserve.

Other finance charges

Other finance charges represent an after-tax amount of EUR 16.9 million (2010: EUR 5.8 million). This amount has been added to auction receipts on the balance sheet, refer to note 17 Auction receipts.

34. Income tax expense

The income tax expense on the profit before income tax differs from the expected tax charge based on the average tax rate. Further details are provided in the table below:

	2011	2010
Profit before income tax	284,716	116,812
Income tax expense based on average income tax rate	80,063	37,363
Non-valued losses	-	43
Income tax expense in previous years	-1,007	544
Non-deductible items	8,984	1,830
Effect change in income tax rate on deferred income tax	-	721
Non-taxable profit	-3,508	112
	84,532	40,613

On the basis of the actual income tax rates, the income tax burden on the result for 2011 proved to be 28.1% (2010: 32.0%). The change in income tax burden is caused by the fact that last year the Netherlands made a loss before tax and Germany made a profit before tax. In 2011 both the Netherlands and Germany made a profit before tax. As the income tax rate in the Netherlands is lower than the income tax rate in Germany, this explains the decrease in average income tax rate.

The non-deductible items relate to non-deductible call option premiums under the participation exemption, non-deductible other finance charges, interest and provisions. The non-taxable items relate to the put option premium income and German pre fiscal unity distributions.

The breakdown of the income tax burden is as follows:

	2011	2010
Deferred income tax	11,614	4,951
Current income tax payable	72,918	35,662
	84,532	40,613

35. Share of (loss)/profit of associates

	2011	2010
Share in the result of HGRT S.A.S.	1,447	991
Share in the result of OTC	-1,250	-
	197	991

36. Disclosure by segment

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, the International Management Board considers the performance of the regulated and the non-regulated activities. From a geographic perspective, the International Management Board separately considers the performance of the regulated activities in the Netherlands and in Germany.

The identified segments have been adjusted following the changed internal reporting provided to the International Management Board during 2011. Consequently, three segments are presently distinguished: TSO Netherlands, TSO Germany and Other. The segment Other comprises all non-regulated activities and holding costs. For these three segments, the International Management Board assesses the performance based on the measure EBIT. Interest income and expenditure are not allocated to segments, as this type of activity is driven by the central treasury function, which manages the cash position of the group.

Additionally, effects of non-recurring expenditure from the operating segments such as amounts relating to acquisitions, impairments and reversals of impairments are separately reported to the International Management Board for each reportable segment. The corresponding items of the segment information for 2010 have been restated accordingly.

The accounting principles used for these segments are the same as those applied in the consolidated financial statements.

The assets, liabilities, revenues and results of the segments comprise both items directly related to those segments and items that can reasonably be attributed to them.

2011 (x EUR million)					
	TSO Netherlands	TSO Germany	Other	Elimination	Total
Assets	3,699.0	4,596.6	7,660.0	-7,385.8	8,569.8
Liabilities	2,445.0	2,418.2	5,611.1	-3,953.3	6,521.0
Equity	1,254.0	2,178.4	2,048.9	-3,432.5	2,048.8
Equity and liabilities	3,699.0	4,596.6	7,660.0	-7,385.8	8,569.8
Total income	670.4	833.1	37.4	-	1,540.9
Depreciation and amortisation	-128.6	-79.6	-11.0	-	-219.2
Other costs	-333.1	-601.7	-58.1	28.1	-964.8
EBIT	208.7	151.8	-31.7	28.1	356.9
Reversal impairments	2.5	-	-	-	2.5

2010 (x EUR million)					
	TSO Netherlands	TSO Germany	Other	Elimination	Total
Assets	3,000.0	3,573.2	5,411.4	-4,930.2	7,054.4
Liabilities	2,466.3	1,545.2	4,111.3	-2,368.5	5,754.3
Equity	533.7	2,028.0	1,300.1	-2,561.7	1,300.1
Equity and liabilities	3,000.0	3,573.2	5,411.4	-4,930.2	7,054.4
Total income	522.1	778.1	39.0	-	1,339.2
Depreciation and amortisation	-112.7	-63.9	-4.1	-	-180.7
Other costs	-450.0	-512.6	-47.1	10.0	-999.7
EBIT	-40.6	201.6	-12.2	10.0	158.8
Acquisitions	-	1,075.0	-	-	1,075.0
Impairments	-134.4	-	-	-	-134.4
Reversal impairments	3.0	-	-	-	3.0

37. Off-balance sheet rights and obligations

Off-balance sheet rights and obligations consist of the following categories (x EUR million):

	2011	2010
(Long-term) financial obligations	3,122.6	1,938.3
(Long-term) financial rights	15.6	-
Obligation for operating leases	106.3	108.7
Conditional obligations	57.8	24.1
Conditional rights	753.4	846.7
Securities & comfort letters received	654.7	889.4
Legal and arbitration proceedings	127.0	127.0
Government guarantees received	300.0	300.0

(Long-term) financial obligations

At 31 December 2011, external commitments totalling EUR 2,969.9 million (2010: EUR 1,756.1 million) had been entered into with regard to the purchase of tangible fixed assets.

In total, other German grid related obligations amounted to EUR 139.7 million (2010: EUR 129.8 million).

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 1.7 million (2010: EUR 1.7 million).

Subject to approval from the Provincial Council, agreement was reached with the provincial authorities of Groningen, Drenthe and Overijssel in November 2007 to retain and upgrade the existing 220 kV line from Zwolle to Vierverlaten. The section between Zwolle and Hoogeveen is to be retained under the agreement. To compensate, TenneT will invest EUR 10 million in projects designed to strengthen nature and landscape values in the provinces of Drenthe and Overijssel. TenneT TSO B.V. paid EUR 2.1 million in 2011 (2010: EUR 2.4 million). TenneT TSO B.V. intends to recognise this sum in its accounts as a substantial investment, known in Dutch legislation as '*aanmerkelijke investering*'.

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 for 2012 amount to EUR 5.8 million (2011: EUR 7.0 million) and consist of contracts with various landlords. NOVEC B.V. expects to continue these contracts for a minimum of 20 years.

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 wind park grid connection, and the deconstruction duties regarding the converter platform BorWin alpha and the sea cable systems NordE.ON1 (BorWin1). The commitments end, at the latest, when TenneT Offshore GmbH has fully met its obligations. In 2011, these letters of comfort were taken over from TenneT Holding B.V. by TenneT TSO GmbH. TenneT TSO GmbH issued comfort letters for the (long-term) financial obligations of TenneT Offshore GmbH to several external parties for a total amount of EUR 2,123.1 million (2010: EUR 140.0 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.

Guarantees BritNed Development Ltd.

TenneT has issued guarantees as security against BritNed Development Ltd. in case the latter company is unable to meet its financial obligations under the cable contract.

(Long-term) financial rights

Amounts relate to the sale of head office building in Arnhem. According to contract the sale will be expected to occur in 2014.

Obligation for operating leases

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

	<1 year	1-5 years	>5 years	Total
At 31 December 2011	12,791	28,521	65,025	106,337
At 31 December 2010	10,705	25,411	72,557	108,673

Conditional obligations

TenneT Holding B.V. issued guarantees against NIBC Bank N.V. in relation to CIF Holding B.V. for an amount of EUR 12.9 million (2010: EUR 12.9 million) and against APX-ENDEX for an amount of EUR 10.0 million.

APX-ENDEX has provided a number of bank guarantees, totalling EUR 16.6 million (2010: EUR 11.2 million) in connection with the office lease, market coupling obligations and adherence to the Belgian and Netherlands power net code.

TenneT TSO B.V. issued bank guarantees for an amount of EUR 18.3 million.

Conditional rights

At year-end 2011, TenneT has received bank guarantees totalling EUR 66.9 million (2010: EUR 113.9 million) with respect to prepayments in relation to investment projects.

At year-end 2011, APX-ENDEX holds an amount of EUR 653.0 million of bank guarantees from members to cover trading margins (2010: EUR 701.0 million).

Parties with programme responsibility have issued bank guarantees totalling EUR 33.5 million (2010: EUR 31.8 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 600.4 million (2010: EUR 876.0 million)
- TenneT TSO GmbH received comfort letters from programme responsible parties covering obligations in relation with energy balancing for an amount of EUR 37.4 million (2010: nil)
- TenneT Germany maintains business relations with quite a few companies that take on the environmental care for the areas around the grids, e.g. cutting of trees or grass. These business relations are often based on long-term contracts. Guarantees are given by the counterpart for the fulfilment of their obligations over the time and amount currently EUR 3.3 million (2010: EUR 3.4 million)
- the building companies TenneT Germany is working with provide guarantees that cover their legal warranties after completing the building project. The guarantees amount to EUR 13.6 million (2010: EUR 10.0 million).

Claims

In December 2009 TenneT TSO GmbH received a claim from E.ON Energy Trading SE (EET) requiring the delivery of a balancing band (*Ausgleichsband*) for volume differences for January and February 2009 relating to the renewable energy remarketing component of a contract for system services between E.ON Netz GmbH and E.ON Sales & Trading GmbH, the legal predecessor of EET.

In December 2010, the BNetzA formally informed TenneT TSO GmbH that in 2009 certain hardship cases (i.e. applications for an increase in the revenue cap due to previously unexpected cost increases), in particular for renewable energy remarketing expenses, may have been granted inappropriately on the basis of preliminary assumptions. These hardship cases amounted to EUR 127 million and were an integral part of the revenue cap decision of May 2009.

In both cases there have been talks between parties involved during 2011. Formally proceedings are still pending but a final outcome is currently expected at short notice. TenneT expects this to result in a favourable settlement with E.ON Energy and an obligation imposed by the BNetzA for TenneT to reduce future tariffs, which will have a non-material negative effect on revenues in coming years.

Offshore wind farm obligations

As one of the responsible parties under German law to provide and maintain high-voltage connections between offshore wind farms located in certain parts of the North Sea and the onshore electricity grid, TTG bears a legal risk if such connections are not completed in time or are unavailable once operational. The existing liability rules lack clarity and are presently subject to legal uncertainty. However the German government has publicly announced that it intends to initiate a clarification of the law shortly which – based on the principle of insurability – should allow continuing investments in offshore wind farms and offshore grid connections. In the current situation, offshore wind farm operators could claim damages from TTG for financial losses resulting from lost revenue in above mentioned cases.

Cartels

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

The 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.

38. Related parties

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 6.

Colonne B.V.

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

No material transactions with related parties, other than already disclosed, have taken place in 2011. 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 29 and in the Remuneration Report.

Related party transactions members Management Board

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.

Mr. Fuchs is also ordinary member of the Supervisory Boards of E.ON Hanse AG and E.ON Bayern AG. These companies rank among the top 20 network companies in Germany. In both companies Mr. Fuchs is one of 20 members in the Supervisory Board and has no significant influence on operational-, management-, or financial policy matters.

Mr. Schulte is ordinary member of the Supervisory Board of E.ON Westfalen Weser AG. This company ranks among the top 20 network companies in Germany. Mr. Schulte is one of 20 members in the Supervisory Board and has no significant influence on operational-, management-, or financial policy matters. As of 1 August 2011, Mr. Schulte left the Management Board of TenneT as his employment terminated at such date.

Various service contracts related to maintenance and energy supply and balancing between E.ON network companies and TenneT are in place. In their role as member of the Supervisory Board of the above-mentioned network companies, both Mr. Fuchs and Mr. Schulte are not involved in any specific aspects of contracts between these companies and TenneT.

The network companies in Germany are invoicing the infeed of renewable energy in their grid area to TenneT TSO GmbH. These transactions concern a pass-through process foreseen under the law impacting cash flows within TenneT TSO GmbH and have no effect on the profit-and-loss account of both parties. Potential interest effects are neutralised by law.

39. Events after the balance sheet date

In February 2012, TenneT entered into a partnership with Mitsubishi Corporation by agreeing to sell an equity stake, representing a 49% voting interest in two German offshore high-voltage cable projects, BorWin1 and BorWin2. Mitsubishi's aggregate equity commitment will total EUR 240 million. The equity commitment of Mitsubishi represents 20% of the expected combined capital expenditures of approximately EUR 1.2 billion for these two projects. TenneT will retain majority ownership and will continue to operate the connections. The transaction is still subject to certain conditions, which are expected to be met before summer 2012.

In March 2012, TenneT and Mitsubishi Corporation signed a letter of intent to partner up in two additional offshore grid connections, HelWin2 and DolWin2. Mitsubishi's expected third-party equity stake would be EUR 340 million. The equity contribution of Mitsubishi would represent 20% of the expected combined expected capital expenditures of approximately EUR 1.7 billion for these two projects.

TenneT lost the appeal procedure against the Method Decision for the fifth regulatory period. According to the judgement of the CBb the NMa rightly decided that the higher costs due to the inefficiency of the old investments cannot be fully recouped in the regulated tariff income. CBb also decided that the NMa rightly used the outcome of the international TSO benchmark to determine the efficiency of costs. TenneT will reconsider its strategy to fundamentally change the future regulatory framework taken into account the outcome of the appeal procedure. One appeal ground was granted by the court and as a result TenneT will obtain an extra EUR 2 million of revenue in the current regulatory period.

Company balance sheet at 31 December 2011 before profit appropriation (x EUR 1,000)

Assets	Note	2011	2010
Non-current assets			
Investments in subsidiaries	41	3,094,260	2,242,610
Deferred income tax assets		7,509	1,452
Other receivables	42	5,841	6,261
Receivables from subsidiaries	43	2,299,735	1,744,329
Total non-current assets		5,407,345	3,994,652
Current assets			
<i>Receivables</i>			
Accounts receivable and other receivables	44	303,436	1,853
Current income tax assets		-	297
Derivative financial instruments	11	-	10,649
Receivables from related parties	43	22,407	100,811
<i>Total receivables</i>		325,843	113,610
Cash and cash equivalents, excluding bank overdrafts		660,280	632
Total current assets		986,123	114,242
Total assets		6,393,468	4,108,894

Company balance sheet at 31 December 2011 before profit appropriation (x EUR 1,000)

Equity and liabilities	Note	2011	2010
Equity	45		
Share capital		100,000	100,000
Share premium reserve		600,000	-
Revaluation reserve		117,421	127,998
Hedging reserve		2,819	-4,241
Reserve for exchange rate differences		-1,805	-1,997
Reserve for participating interests		18,968	8,741
Retained earnings		500,080	483,430
Profit for the year		196,420	76,152
		1,533,903	790,083
Hybrid securities		497,600	496,800
Total equity		2,031,503	1,286,883
Non-current liabilities			
Borrowings	46	2,580,235	1,572,011
Deferred tax liabilities		1,521	-
Total non-current liabilities		2,581,756	1,572,011
Current liabilities			
Borrowings	46	17,180	757,272
Bank overdrafts	47	-	52,081
Liabilities payable to subsidiaries	48	1,621,912	390,625
Current income tax liabilities		54,281	1,751
Accounts payable and other liabilities	49	86,836	48,271
Total current liabilities		1,780,209	1,250,000
Total equity and liabilities		6,393,468	4,108,894

Company profit-and-loss account for the year 2011 (x EUR 1,000)

	2011	2010
Loss TenneT Holding B.V. after income tax	-43,012	-13,193
Profit from participating interests after income tax	239,432	89,345
Profit for the year	196,420	76,152

Company statement of changes in equity for the year 2011 (x EUR 1,000)

	Paid-up and called-up capital	Share premium reserve	Hedging reserve	Revalu- ation reserve	Reserve for exchange rate diffe- rences	Reserve for partici- pating interests	Retained earnings	Hybrid securities	Profit for the year	Total
Balance at 1 January 2010	100,000	-	-2,090	138,575	-2,766	5,848	408,904	-	72,066	720,537
Profit for the year										
Profit appropriation 2009	-	-	-	-	-	-	72,066	-	-72,066	-
Profit for the year 2010	-	-	-	-	-	-	-	-	76,152	76,152
Other comprehensive income										
Exchange rate differences	-	-	-	-	256	-	-	-	-	256
Reserve for participating interests	-	-	-	-	-	-2,107	2,107	-	-	-
Direct equity changes participating interests	-	-	-	-	-	-	-3,782	-	-	-3,782
Termination Swap British Pounds	-	-	2,804	-	-	-	-	-	-	2,804
Cash flow hedges ended	-	-	-18,691	-	-	-	-	-	-	-18,691
New cash flow hedges	-	-	10,649	-	-	-	-	-	-	10,649
Amortisation cash flow hedges	-	-	2,350	-	-	-	-	-	-	2,350
Taxation	-	-	737	-	-	-	-	-	-	737
Realisation of revaluation	-	-	-	-10,577	-	-	10,577	-	-	-
Other	-	-	-	-	-22	-	-3	-	-	-25
Total comprehensive income 2010, net of tax	-	-	-2,151	-10,577	234	-2,107	80,965	-	4,086	70,450
Transactions with equity holders, recognised directly in equity										
Capital Eia in APX-ENDEX Holding B.V.	-	-	-	-	535	5,000	4,561	-	-	10,096
Dividend 2009 TenneT Holding B.V.	-	-	-	-	-	-	-11,000	-	-	-11,000
Total transactions with equity holders, recognised directly in equity	-	-	-	-	535	5,000	-6,439	-	-	-904
Hybrid securities										
Contribution on hybrid securities	-	-	-	-	-	-	-	496,800	-	496,800
Total hybrid securities	-	-	-	-	-	-	-	496,800	-	496,800
Balance at 31 December 2010	100,000	-	-4,241	127,998	-1,997	8,741	483,430	496,800	76,152	1,286,883

Company statement of changes in equity for the year 2011 (x EUR 1,000)

	Paid-up and called-up capital	Share premium reserve	Hedging reserve	Revalu- ation reserve	Reserve for exchange rate diffe- rences	Reserve for partici- pating interests	Retained earnings	Hybrid securities	Profit for the year	Total
Balance at 31 December 2010	100,000	-	-4,241	127,998	-1,997	8,741	483,430	496,800	76,152	1,286,883
Profit for the year										
Profit appropriation 2010	-	-	-	-	-	-	76,152	-	-76,152	-
Profit for the year 2011	-	-	-	-	-	-	-	-	196,420	196,420
Other comprehensive income										
Exchange rate differences	-	-	-	-	192	-	-	-	-	192
Direct equity changes participating interests	-	-	-	-	-	-	-9,664	-	-	-9,664
Direct equity movements in associates	-	-	-	-	-	-	-508	-	-	-508
Reserve for participating interests	-	-	-	-	-	3,927	-3,927	-	-	-
Cash flow hedges ended	-	-	8,576	-	-	-	-	-	-	8,576
Amortisation cash flow hedges	-	-	875	-	-	-	-	-	-	875
Taxation	-	-	-2,391	-	-	-	2,899	-	-	508
Realisation of revaluation	-	-	-	-10,577	-	-	10,577	-	-	-
Total comprehensive income 2011, net of tax	-	-	7,060	-10,577	192	3,927	75,529	-	120,268	196,399
Transactions with equity holders, recognised directly in equity										
Capital contribution Dutch state	-	600,000	-	-	-	-	-	-	-	600,000
Dividend 2010 TenneT Holding B.V.	-	-	-	-	-	-	-20,000	-	-	-20,000
Distribution on hybrid securities	-	-	-	-	-	-	-43,625	-	-	-43,625
Taxation	-	-	-	-	-	-	11,046	-	-	11,046
Total transactions with equity holders, recognised directly in equity	-	600,000	-	-	-	-	-52,579	-	-	547,421
Hybrid securities										
Taxation on fees for hybrid securities	-	-	-	-	-	-	-	800	-	800
Total hybrid securities	-	-	-	-	-	-	-	800	-	800
Balance at 31 December 2011	100,000	600,000	2,819	117,421	-1,805	12,668	506,380	497,600	196,420	2,031,503

Notes to the company balance sheet and profit-and-loss account for the year 2011

(x EUR 1,000)

40. Principles governing the valuation of assets, equity and liabilities and the determination of results

General

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.

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

Management report

The management report appears on pages 2 to 56 inclusive.

Comparative figures

The accounting principles used for the valuation of assets and liabilities and the determination of the result remain unchanged compared to the previous year.

The principles applied in the company financial statements for the valuation of assets and liabilities and for the determination of the result are the same as those used in the consolidated financial statements. For a description of these principles, please refer to Chapter 3 'Summary of accounting principles applied' as included in the consolidated financial statements.

The following notes provide information that is additional to the information given in the notes to the consolidated financial statements.

41. Investments in subsidiaries

Investments in subsidiaries are measured at net equity value. The net equity 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.

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

	2011	2010
Balance at 1 January	2,242,610	659,357
Foreign currency	192	231
Direct equity movements in associates	-508	909
Increase of capital	673,000	1,530,653
Share in result	239,432	89,345
Dividend paid/received	-53,712	-44,191
Pension through other comprehensive income	-6,745	-3,782
Paid-in capital	-	11,682
Dilution	-	-1,585
Other	-9	-9
Balance at 31 December	3,094,260	2,242,610

The investments in subsidiaries relate to the legal entities included in the consolidation: TenneT TSO B.V., APX-ENDEX Holding B.V., NOVEC B.V., NLink International B.V., New Values B.V., TenneT Blue B.V., TenneT TSO Duitsland B.V., TenneT Orange B.V., TransTenneT B.V., TenneT GmbH & Co. KG, TenneT Verwaltungs GmbH, TenneT TSO GmbH, TenneT Offshore GmbH, TenneT Offshore 1. Beteiligungsgesellschaft mbH, TenneT Offshore 2. Beteiligungsgesellschaft mbH, TenneT Duitsland Coöperatief U.A. and Relined B.V. These subsidiaries have been valued in accordance with TenneT's accounting principles.

TenneT TSO B.V. has issued a declaration of liability as referred to in Book 2, Part 9, Section 403 of the Netherlands Civil Code in respect of B.V. Transportnet Zuid-Holland, Saranne B.V., TenneT TSO E B.V., HS Netten Zeeland B.V., Nadine Netwerk B.V., TenneT Duitsland Coöperatief UA, TransTenneT B.V., TenneT Blue B.V., NLink International B.V. and TenneT Duitsland B.V.

42. Other receivables

Other receivables concern the credit facility fee, available for the period 2009-2013.

The movement in the other receivables can be broken down as follows:

	2011	2010
Balance at 1 January	8,094	-
Credit facility fees paid in advance	1,125	9,998
Charged against the profit-and-loss account	-1,748	-1,904
Balance at 31 December	7,471	8,094
Long-term	5,841	6,261
Short-term	1,630	1,833
Balance at 31 December	7,471	8,094

Every year, part of the credit facility paid in advance is charged against the result on a linear basis.

The ageing of other receivables can be broken down as follows:

	<1 year	1-5 years	>5 years	Total
At 31 December 2011	1,630	5,841	-	7,471
At 31 December 2010	1,833	6,261	-	8,094

43. Receivables from subsidiaries

	2011	2010
NLink International B.V.	318,238	249,420
TenneT TSO B.V.	1,415,000	1,456,061
TenneT Orange B.V.	75,000	76,953
TenneT Offshore GmbH	10,597	38,404
Relined B.V.	2,479	1,840
NOVEC B.V.	16,800	21,743
TenneT TSO Duitsland B.V.	8,333	-
TenneT Offshore 2. Beteiligungsgesellschaft mbH	475,666	-
Other	29	719
Balance at 31 December	2,322,142	1,845,140
Long-term	2,299,735	1,744,329
Short-term	22,407	100,811
	2,322,142	1,845,140

The receivable from TenneT Offshore 2. Beteiligungsgesellschaft mbH relates to the funding of several offshore projects by TenneT Holding B.V.

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

44. Accounts receivable and other receivables

The accounts receivable and other receivables can be broken down as follows:

	2011	2010
Interest receivable	1,691	-
Equity to be received	300,000	-
Short-term part of long-term receivables	1,630	1,833
Accounts receivable	115	20
	303,436	1,853

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 will be received in the second quarter of 2012. The capital contribution takes place without issuing shares. The capital contribution is received by TenneT Holding B.V. and subsequently transferred to TenneT TSO B.V. The receipt of the capital contribution can only be used for Dutch activities. It is not allowed to use these receipts for the German activities.

45. Equity

Paid-up and called-up capital

On the balance sheet date, the company's authorised share capital amounted to EUR 500 million, divided into one million shares of EUR 500 each. Of these shares, 200,000 have been issued and paid-up. There was no change in this item during the year under review.

Share premium reserve

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 will be received in the second quarter of 2012. The capital contribution takes place without issuing shares. The capital contribution is received by TenneT Holding B.V. and subsequently transferred to TenneT TSO B.V. The receipt of the capital contribution can only be used for Dutch activities. It is not allowed to use these receipts for the German activities.

Revaluation reserve

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 that results from application of the fair value exception, less the deferred tax liability.

Hedging reserve

The hedging reserve relates to the cumulative result of the sold 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.

Reserve for exchange rate differences

The reserve for exchange rate differences serves to cover movements in exchange rates associated with participating interests in the UK (including goodwill). The cumulative reserve for exchange rate differences includes EUR 1.9 million cumulative negative exchange rate differences of APX-ENDEX.

Reserve for participating interests

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

Hybrid securities

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. These securities are classified under IFRS 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. 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'). The holders of the hybrid securities have limited ability to influence the outcome of a bankruptcy proceeding or a restructuring outside bankruptcy.

The amount paid at 1 June 2011 amounts to EUR 43.6 million and covers the period 9 February 2010 until 31 May 2011.

Reconciliation of consolidated result with company result

The company result is EUR 1.9 million lower than the consolidated result due to a prior year adjustment. The year-end shareholders' equity is equal in both statements.

46. Borrowings

	Commercial paper	Bonds	EIB loans	Other loans	Total 2011	Total 2010
Balance at 1 January	627,592	1,185,601	363,590	152,500	2,329,283	100,000
Transferred from TenneT TSO B.V.	-	-	-	-	-	1,132,662
New borrowings	-	1,000,000	-	-	1,000,000	2,787,684
Fair value adjustment	-	27,636	-	-	27,636	-
Amortisation	-	361	-	-	361	-1,751
Credit facility fees paid in advance	-	-2,593	-	-	-2,593	2,288
Redemptions	-627,592	-	-17,180	-112,500	-757,272	-1,691,600
Balance at 31 December	-	2,211,005	346,410	40,000	2,597,415	2,329,283
Long-term	-	2,211,005	329,230	40,000	2,580,235	1,572,011
Short-term	-	-	17,180	-	17,180	757,272
Total	-	2,211,005	346,410	40,000	2,597,415	2,329,283

Long-term credit facilities

TenneT's committed long-term credit facilities amounted to EUR 2,736.4 million at 31 December 2011 (EUR 1,608.6 million at 31 December 2010). A sum of EUR 2,586.4 million (2010: EUR 1,603.6 million) has been drawn from these facilities. Of this amount, EUR 2,569.2 million had a contractual term of more than one year at 31 December 2011 (EUR 1,582.1 million at 31 December 2010), while EUR 17.2 million (2010: EUR 26.5 million) had a contractual term of less than one year.

The long-term portion of the credit facilities consists of five bond loans and four EIB loans, all taken out with the European Investment Bank (EIB), and a four-year loan of EUR 40.0 million.

The bond loans were concluded at coupon rates of 3.25% (contractual term of five years, EUR 500 million, maturity date 2015), 4.50% (contractual term of 12 years, EUR 500 million, maturity date 2022), 4.75% (contractual term of 20 years, EUR 200 million, maturity date 2030), 3.875% (contractual term of seven years, EUR 500 million, maturity date 2018) and 4.625% (contractual term of 12 years, EUR 500 million, maturity date 2023). The fair value of the bonds amounts to EUR 2,332.4 million (2010: EUR 1,222.5 million). The fair value is based on stock exchange listings.

The fair value adjustment of the bonds mainly relates to the Interest Rate Swaps that were classified as fair value hedges. As of 31 December 2011, all these Interest Rate Swaps were sold. The cumulative result of these Interest Rate Swaps had been recorded in the valuation of the bonds and will be amortised over the remaining term of the original Interest Rate Swaps. Besides, this fair value adjustment relates to the transaction costs which had been included in the bond and the difference between the issue price and the nominal price of the bonds issued in 2011.

The EIB loans were concluded at fixed interest rates of 4.4% (EUR 36.6 million, maturity date 2021), 4.7% (EUR 36.9 million, maturity date 2022), 4.4% (EUR 140.0 million, maturity date 2023) and 4.1% (EUR 150.0 million, maturity date 2021). The fair value of the EIB loans amounts to EUR 371.9 million (2010: EUR 378.7 million). The four-year loan of EUR 40.0 million was concluded at a fixed interest rate of 3.31% and matures in 2013. This loan has a fair value of EUR 41.3 million (2010: EUR 41.4 million). The fair value of the loans has been calculated using discounted cash flow valuation methods, on the basis of the market conditions prevailing on the balance sheet date.

The terms and conditions of the loans include negative pledge and pari passu clauses. No security has been provided.

Short-term credit facilities

TenneT has short-term credit facilities with a total value of EUR 430.0 million at its disposal. Of this amount, a sum of EUR 30.0 million is committed and EUR 400.0 million is uncommitted. 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, no amounts (2010: EUR 82.1 million) had been drawn from these facilities. The short-term part of the EIB-loans amounted to EUR 17.2 million (2010: EUR 17.2 million).

In 2010, TenneT also refinanced its revolving credit facility and not only increased the total amount to EUR 1,125.0 million, but also expanded its contractual term to five years. The revolving credit facility was arranged with an international group of banks consisting of Barclays, Bank Nederlandse Gemeenten (BNG), BNP Paribas, Deutsche Bank, Fortis (Netherlands), ING, Lloyds, Rabobank and Royal Bank of Scotland (RBS). Amounts may be drawn from the revolving credit facility based on the EURIBOR interest rates that correspond with the term of such drawing. At 31 December 2011, the full revolving credit facility was undrawn. The term of this committed revolving credit facility was extended by one year in August 2011 to August 2016.

In 2010, TenneT set up a commercial paper programme. As of 31 December 2011, no amounts (31 December 2010: EUR 628.0 million) were issued under this programme.

47. Bank overdrafts

This item concerns credit granted by banks. As of 31 December 2011, TenneT did not use its credit facility granted by banks (2010: EUR 52.1 million).

48. Liabilities payable to subsidiaries

	2011	2010
TenneT TSO GmbH	1,052,894	390,303
TenneT Orange B.V.	524	-
TenneT TSO B.V.	535,295	46
NOVEC B.V.	24,694	-
NLink International B.V.	1,617	-
TenneT GmbH & Co. KG	4,339	262
TransTenneT B.V.	908	-
TenneT Offshore 1. Beteiligungsgesellschaft mbH	1,636	-
Other	5	14
Balance at 31 December	1,621,912	390,625
Long-term	-	-
Short-term	1,621,912	390,625
	1,621,912	390,625

The amount at TenneT TSO GmbH refers to the cash pool. The terms of the loans are not fixed; no securities have been provided. The agreed interest rates are between EONIA +0.125% and EONIA +0.9%.

49. Accounts payable and other liabilities

	2011	2010
Accounts payable	40	207
Taxation and social security contributions	98	38
Interest	81,674	46,370
Other	5,024	1,656
	86,836	48,271

50. Related parties

All participating interests in subsidiaries referred to in note 41, 43 and 48 are regarded as related parties.

During the year under review, TenneT Holding B.V. had no employees.

Arnhem, 22 March 2012

Management Board TenneT Holding B.V.

J.M. Kroon ¹⁾

M.J. Fuchs ¹⁾

E.T.A. de Boer ^{1) 2)}

B.G.M. Voorhorst ¹⁾

A.A. Hartman

Supervisory Board

A.W. Veenman

J.F.T. Vugts

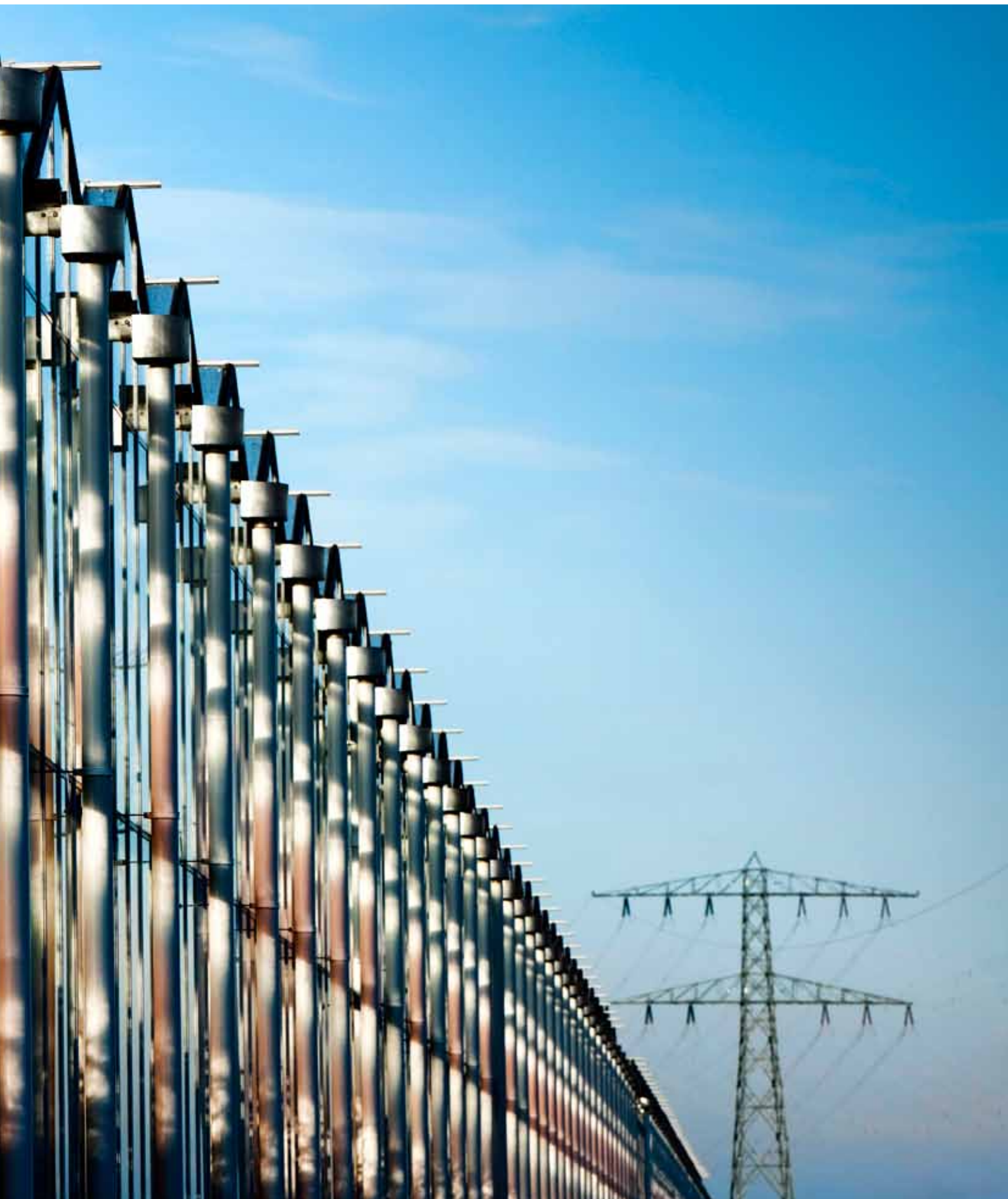
J.F. van Duyne

C. Griffioen

R.G.M. Zwitserloot

1) Statutory director

2) Eelco de Boer was appointed as a permanent member of the Management Board of TenneT as of 1 December 2011.



13 Other information

Appropriation of profit

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 Management Board proposes the following appropriation of profit for 2011 (x EUR 1,000):

Addition to retained earnings	105,086
Annual dividend hybrid securities	33,318
Proposed common dividend	60,000
Profit after tax (shareholder)	198,404

The proposed appropriation of profit has not been recorded in the financial statements.

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 2011 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 balance sheet as at 31 December 2011, the consolidated profit-and-loss account, 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 balance sheet as at 31 December 2011, the company profit-and-loss account 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 as set out on pages 2 to 56 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 2011, 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 2011, 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 as set out on pages 2 to 56, 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 as set out on pages 2 to 56, 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, 22 March 2012

PricewaterhouseCoopers Accountants N.V.

Original has been signed by drs. C.J.A.M. Romme RA

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 Board TenneT TSO B.V.
Other positions	<ul style="list-style-type: none">• member Supervisory Board Havenbedrijf Rotterdam N.V.• member Supervisory Board Diamond Tools Group B.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 Board TenneT TSO GmbH
Other positions	<ul style="list-style-type: none">• member Supervisory Board SAG Langen• member Supervisory Board E.ON Hanse AG• member Supervisory Board E.ON Bayern AG



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.
Other positions	<ul style="list-style-type: none"> • member Supervisory Board University Twente • business partner Larive Venturing BV • member Advisory Board Fortis Healthcare



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	<ul style="list-style-type: none"> • member Board TenneT TSO B.V. • member Board TenneT TSO GmbH
Other positions	<ul style="list-style-type: none"> • member Supervisory Board NOVEC B.V. • member Board of the Netherlands association Netbeheer Nederland • member Supervisory Board Energie Data Services Nederland B.V. (EDSN) • member Board of the Netherlands Association for Energy Data Exchange (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	<ul style="list-style-type: none"> • member Board TenneT TSO B.V. • member Board TenneT TSO GmbH
Other positions	<ul style="list-style-type: none"> • chairman Board BritNed Development Ltd. • director NLink International B.V. • chairman Steering Committee NorNed • 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	<ul style="list-style-type: none"> • chairman Supervisory Board GVB Holding N.V. • chairman Supervisory Board Trans Link Systems B.V. • chairman Supervisory Board Stichting Woonbron • member Supervisory Council Stichting ECN • 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	<ul style="list-style-type: none"> • member <i>Aufsichtsrat</i> 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	<ul style="list-style-type: none">• chairman Supervisory Board De Nederlandsche Bank N.V.• chairman Supervisory Board Koninklijke Verkade N.V.• chairman Supervisory Board Gamma Holding N.V.

**C. (Cees) Griffioen**

Member Supervisory Board
Chairman Audit Committee

Year of birth	1941
Nationality	Dutch
Initial appointment	15 June 2000
Expiration last term	15 June 2012
Principal position	Former vice-chairman Management Board and CFO Koninklijke KPN N.V.
Other positions	<ul style="list-style-type: none">• member Supervisory Board N.V. Nederlandse Gasunie• chairman Supervisory Council of Noorderbreedte Care Group• advisor to member Executive Board of Deloitte

**R.G.M. (Rien) Zwitterloot**

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	<ul style="list-style-type: none">• member Supervisory Board Royal Vopak N.V.• member Supervisory Board Amsterdam Capital Trading Group B.V.

Organisation

Activities

TenneT Holding B.V. presently manages the following activities (as at March 2012):

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 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 in 2009 of the high voltage grids of Liander N.V., Enexis B.V. and Delta N.V.

- 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 supply-and-demand balance 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 BorWin 1 and BorWin 2 connection systems 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.

This company 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.

This company 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 in 2012.

Stichting Beheer Doelgelden Landelijk Hoogspanningsnet

This foundation (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 specifically designated purposes connected 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. The Belgian gas transport company Fluxys Europe B.V. owns 3% of the shares, N.V. Nederlandse Gasunie owns 20.9%, the Belgian TSO Elia System Operator S.A. owns 20%, 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 market 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.

- 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. (an asset company that owns pylons used for antenna sites).

RELINED B.V.

This 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.

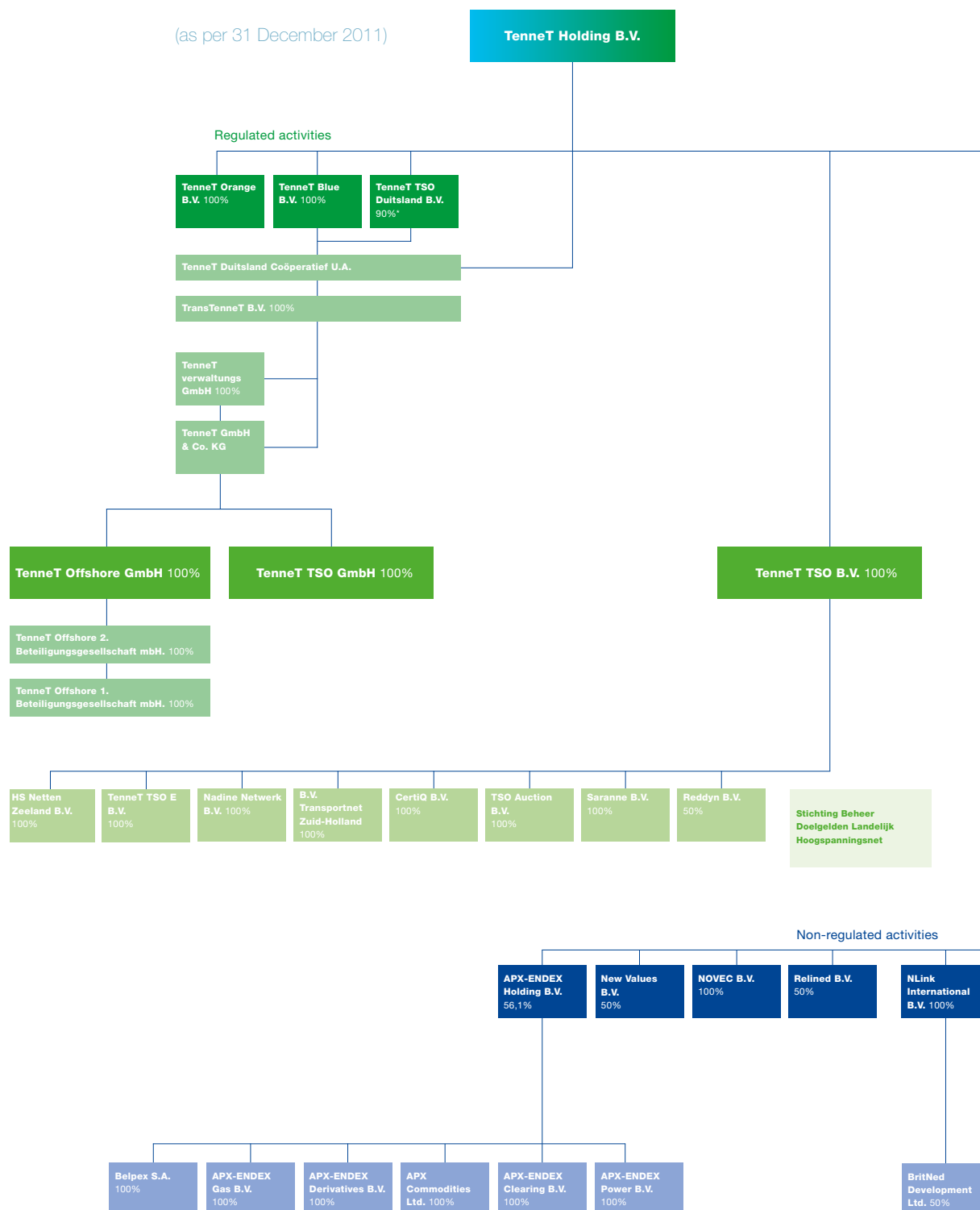
New Values B.V.

New Values B.V. is a 50/50 joint venture of TenneT Holding B.V. and Coöperatieve Centrale Raiffeisen Boerenleenbank B.A. (Rabobank). The activities of New Values have been terminated and the company will be dissolved in 2012.



TenneT Group legal structure

(as per 31 December 2011)



* 10% Stichting Beheer Doelgelden Landelijk Hoogspanningsnet



Abbreviations, definitions and ratios

ARegV

Anreizregulierungsverordnung

Revenue cap regulation for power and gas grid fees, aimed at increasing competition and lowering energy prices, thus profiting both consumers and new power and gas providers, as well as renewable energy.

ATC

Available Transfer Capacity

A measure of the remaining power transfer capability of the transmission network for further transactions.

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.

BorWin Alpha

The first HVDC station of the world installed on an offshore platform.

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.

EMCC

European Market Coupling Company

Improves market efficiency of cross-border capacity trading in the Central Western European, Nordic and Estonian region. EMCC promotes the integration of regional markets towards a Europe-wide wholesale electricity market.

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.

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.

KWK-G*Kraft-Wärme-Kopplungsgesetz*

German Combined Heat and Power Act.

LTIF*Lost Time Injury Frequency*

The number of lost time injuries for each one million hours worked. A lost time injury is an injury that has resulted in at least one day's absence from work.

NorNed cable

A submarine high-voltage cable which interconnects the Dutch and Norwegian electricity grids. With a total length of 580 kilometres, the NorNed cable has a capacity of 700 MW – enough to supply power to half of Amsterdam or Oslo.

PMU*Phasor Measurement Unit*

A device which measures the electrical waves on an electricity grid, using a common time source for synchronisation. Time synchronisation allows synchronised real-time measurements of multiple remote measurement points on the grid.

Randstad 380 kV

The Randstad 380 kV-project provides for the installation of a new 380 kV high-voltage connection in the Randstad conurbation, and the construction of the necessary high-voltage substations.

TSO*Transmission System Operator*

An operator that transmits electrical power from generation plants to regional or local electricity distribution operators.

WAMS*Wide Area Measurement System*

A technology that allows for the monitoring and synchronisation of wide area networks by using sensors that are capable of very rapid analysis of anomalies in electricity quality over very large geographic areas.

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'. Thanks to the Wintrack concept, optimum use can be made of the space available around high-voltage lines.

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.

EBIT growth

$(\text{EBIT year } t \text{ minus EBIT year } t-1) / \text{EBIT year } t-1$

FFO

Funds from operations

Profit after tax allocated to shareholder plus depreciation and amortisation minus other income adjusted for non-core business related effects.

Invested capital

Equity plus net debt minus capital contribution committed but not yet received.

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.

Non-core business related effects

Impairment, impairment reversal, release environmental management and decommissioning provision in result, withdrawal loss-incurring activities, reimbursement costs 2008-2010 revised Method Decision, costs relating to cross-border lease grids.

Return on invested capital

EBIT/average invested capital during the relevant period.

Disclaimer

'We', 'TenneT', 'TenneT Holding', 'TenneT TSO', 'the TenneT 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 annual 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.

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.

A condensed Annual Report is also available in Dutch and German at www.tennet.eu

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April 2012



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