

Staying Connected

Integrated
Annual Report
TenneT 2013





Grid availability

99.99%

Revenue (EUR million)

2,243

Total assets (EUR million)

11,563

Total circuit length
Netherlands and Germany



Profile

About TenneT

TenneT is a leading European electricity transmission system operator (TSO) in the Netherlands and in a large part of Germany. In the Netherlands, our activities are carried out by TenneT TSO B.V. and its subsidiaries. In Germany, our work is performed by TenneT TSO GmbH, TenneT Offshore GmbH and its subsidiaries. We ensure a reliable and uninterrupted supply of electricity for the 36 million end-users in the markets we serve. We aim to meet our stakeholders' needs by being responsible, engaged and connected.

With around 21,000 kilometres of high-voltage lines, we cross borders and connect countries. TenneT ranks among Europe's top 5 TSOs and works closely with governments, NGOs, trading partners and private investors all over the world. Our aim is to ensure that critical infrastructure is developed, realised and managed efficiently, now and in the future, onshore and offshore. We are keen to pursue the development of a North West European electricity market.

As a leading TSO, our main duties are to provide (1) power transmission services, by constructing and maintaining a robust high-voltage grid, (2) system services, by maintaining the balance between supply and demand of electricity 24 hours a day, 7 days a week and (3) facilitating a smoothly functioning, liquid and stable electricity market.

TenneT mainly has regulated activities. These activities are governed by the provisions of relevant legislation in the Netherlands and Germany. Regulatory authorities oversee TenneT's compliance with these provisions.

Besides the regulated activities, TenneT also has certain unregulated activities. TenneT Holding B.V. is directly responsible for these activities, which support the energy market, helping to ensure it is operated smoothly and efficiently. TenneT holds a 50% interest in BritNed, a merchant cable operator that manages the electricity interconnector between the Netherlands and Great Britain. Also, TenneT owns shares in APX, a North West European energy exchange, and manages part of the infrastructure required to send and receive broadcasting and telecom signals (NOVEC/Relined).



Responsible

In the dynamic North West European electricity market, we offer society and businesses our full commitment to maintaining grid stability and enhancing the high-voltage infrastructure, enabling the large scale use of renewables.



Engaged

We are intrinsically driven by the technical, operational and societal challenges of the energy transformation and the pursuit of a North West European electricity market.



Connected

Meeting the current and future needs of society, businesses and consumers requires a concerted effort of all stakeholders. We take initiative, are transparent and connect internally as well as externally.

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Scope

The 2013 integrated annual report describes the key aspects of TenneT's operational, financial and social performance. This report combines information on Corporate Social Responsibility and the Financial Statements for the year 2013, both in the Netherlands and in Germany.

Online reporting

When referring to the online annual report, please note that the full report is available only in English. Some of the information from this report is also available in other (online) formats, including abbreviated reports in Dutch and German. TenneT's Integrated Annual Report 2012, which was published on 7 March 2013, was also only available in full in English (as pdf version via the corporate website www.tennet.eu).

Integrated reporting: Stakeholders and Materiality

As an organisation with a key role in securing the supply of electricity to society, TenneT takes the views and input from its internal and external stakeholders very seriously. The social and wider impact on stakeholders and the organisation was assessed in a materiality test. The outcome of this test is included in this report and provides the basis for the contents of the integrated annual report.

Transparency and Corporate Social Responsibility Global Reporting Initiative (GRI)

To enable a more transparent view of our economic, environmental and social performance and impact, we have based our reporting on the GRI sustainability framework. The most recent GRI G4 framework was launched in May 2013 and consists of the GRI Sustainability Reporting Guidelines and the GRI Sector Disclosures documents. The Guidelines were developed through a global multi-stakeholder process involving representatives from business, labour, civil society and financial markets, as well as auditors and experts in various fields. This process was executed in close dialogue with regulators and governmental agencies in several countries. TenneT has prepared its integrated annual report 2013 in such a way as to, insofar as it is relevant to our activities, comply with the GRI G4 (CORE) Sustainability Reporting Framework. The complete GRI table can be found in the enclosures of this integrated annual report.

Transparency Benchmark

TenneT participates in the Dutch Transparency Benchmark, an annual survey by the Ministry of Economic Affairs, which examines the content and quality of external reporting on corporate social responsibility issues. The survey is performed yearly among a group of organisations, which includes the largest companies in the Netherlands. The Dutch Minister of Finance determined that state-owned companies should be included in the Transparency Benchmark group, as the public may expect them to be particularly accountable for their policies and performance, including with respect to social responsibility issues.

Corporate Governance

TenneT has chosen to comply with the Dutch Corporate Governance Code on a voluntary basis. The principles and best practices laid down in this Code provide guidelines for TenneT. This is also expressed in the in-control statement and the statement of responsibility as included in the Statements of the Executive Board in this report.

Financial Reporting

The financial statements were prepared in accordance with International Financial Reporting Standards, as adopted by the European Union (hereafter 'IFRS'). A summary of the accounting policies applied is disclosed in note 3 to the consolidated financial statements of this integrated annual report.

External assurance

Confirming TenneT's view on the importance of reporting on an integrated basis about financial, environmental and social performance, EY has issued a combined opinion on the financial statements and assurance report on selected non-financial information. Their report is included in the integrated annual report.

Key events



TenneT and Mitsubishi expand their cooperation and invest in two additional offshore grid connections in Germany, HelWin2 and DolWin2

TenneT awards offshore grid connection project Dolwin3



Elia System Operator and TenneT Holding confirm the launch of APX, a dedicated power spot and clearing exchange

TenneT, Statnett and KfW reach agreement to jointly finance and develop the cross border, offshore DC interconnector NordLink, between Germany and Norway



Otto Jager succeeds Eelco de Boer as Chief Financial Officer

DolWin alpha installed; the largest on sea 'socket' placed in the North Sea off the German coast to connect large offshore wind farms to the electricity grid



TenneT starts building the Hamburg/ Nord-Dollern 380-kV-line

Stephanie Hottenhuis joins TenneT Supervisory Board

Official opening of Randstad 380 kV Zuid, including the longest stretch of underground high-voltage cable in the world

Installation of offshore converter station HelWin alpha

Dutch Ministry of Finance publishes the new policy for state-owned enterprises ('Nota Deelnemingen-beleid Rijksoverheid 2013'), reconfirming the importance of public ownership of the Dutch high-voltage electricity grid

Planning for first onshore DC-line in Germany ('SuedLink') starts, the electricity highway from the north to the south of Germany

TenneT strengthens its financing position with the successful completion of a EUR 500 million senior unsecured bond issue and a EUR 500 million loan commitment from the EIB

Move to new TenneT headquarters Mariëndaal Centre of Excellence in Arnhem

Key figures

Technical Data	2013		2012	
	NL	D	NL	D
Substations				
220/380 kV	40	116	39	116
110/150 kV	279	5	279	5
Total number of substations	319	121	318	121
Converter locations	2	2	2	2
Circuit length				
150/300/450 kV DC	420	200	420	200
220/380 kV	2,902	10,605	2,872	10,604
110/150 kV	6,729	141	6,686	102
Total circuit length (km)	10,051	10,946	9,978	10,906

Market / Operations	2013	2012
Grid availability (%)	99.9999%	99.9999%
Interruptions (#)	9	8
Energy not supplied (MWh)	383	127
Customer satisfaction (%)	86%	79%

Environment	2013	2012
Leaked SF ₆ (kg)	1,083	1,230
Leaked SF ₆ (%)	0.50%	0.61%
Grid losses (GWh)	2,544	2,482
Carbon footprint CO ₂ emissions (tonnes)	1,250,953	1,222,235

Employees	2013	2012
Number of employees (excluding external personnel) in headcount	2,596	2,373
Number of external personnel in headcount	523	433
Lost Time Injury Frequency	4.5	4.8
Employee satisfaction (%)	82%	N/A

Total circuit lengths (km)

20,997

Leaked SF₆ (%)

0.5%

LTIF

4.5

Financial (EUR million based on underlying financial information)	2013	2012	2011
Revenue	2,243	1,769	1,545
EBITDA	875	608	584
EBIT	620	363	353
Profit for the year	357	180	196
Total assets	11,563	10,284	8,788
Net interest bearing debt, adjusted	3,147	2,694	1,922
Equity	2,593	2,221	1,975
Return on invested capital	11.6%	8.2%	10.4%
FFO/net debt	18.6%	15.4%	21.7%

Revenue (EUR million)

2013	2,243
2012	1,769

Total assets (EUR million)

2013	11,563
2012	10,284

Carbon footprint (tonnes CO₂)

2013	1,250,953
2012	1,222,235

Number of employees

2013	2,596
2012	2,373

Employee satisfaction

82%

EBIT (EUR million)

620

ROIC

11.6%

Definitions of key figures are included in the CSR Reporting Principles and Abbreviations

Letter from the CEO

Staying connected: balancing change
in a dynamic environment



Mel Kroon
CEO and Chairman
of the Executive Board

In 2013, staying connected as ever, we held firm on our pledge to our stakeholders, remaining focused on security of supply, facilitating energy transition and ensuring efficiency. TenneT's high-voltage grid once again showed a high availability percentage of 99.9999 and any outages and incidents remained well within limits, ranking TenneT among the most reliable TSOs in Europe. To continue this high level of reliability, we are carrying out an extensive and balanced investment program that acknowledges and takes into account the wishes and needs of society and other stakeholders.

Responding to the changes in the energy landscape – which seriously affect the (European) energy industry, consumers and businesses – is a big challenge. Therefore, the creation of a genuine European integrated energy market and a common European energy policy has become even more necessary.

To achieve our mission of providing security of electricity supply and optimising efficiency of our activities, we aim to remain a leading player in the North West European energy market. This will allow us to help shape the best possible conditions for the market and ultimately our stakeholders. A truly North West European energy strategy, although challenging, is our preferred way of realising an efficient, reliable and sustainable electricity supply for our customers. TenneT is a strong proponent of true integration of the European energy markets and is an active member of organisations such as the European Network of Transmission System Operators for Electricity, ENTSO-E, which is working to promote this. Given the scale and complexity of the projects involved, this will take many years to complete. However, we made significant progress in 2013. For example we are working on a cross-border interconnector linking Doetinchem in

the Netherlands to Wesel in Germany (scheduled for completion in 2016) and TenneT is planning to expand the capacity of the interconnection line Meeden (NL) – Diele (D). We also have advanced plans for new sub-sea cable links from Germany to Norway (NordLink) and are exploring the possibility of a sub-sea cable link from the Netherlands to Denmark.

Renewable energy

Renewable energy is one of the most exciting and fast-developing issues affecting the modern world. It holds vast potential for slowing the effects of climate change, reducing our dependence on fossil fuels, and building nations' independent energy supply for the future.

“A truly North West European energy strategy, although challenging, is our preferred way of realising an efficient, reliable and sustainable electricity supply for our customers.”

As the market for and policies surrounding renewable energy are changing fast, we have worked hard to achieve balance in a number of areas. We aim for balancing the changes in the German electricity supply, which is affected by large amounts of subsidised green energy being fed into the grid. This development is strengthened by the Energiewende – the policy driving Germany's transition towards renewables and away from nuclear energy.

The speed of change demanded by the Energiewende creates challenges in balancing the system. Fossil-based energy generators and nuclear energy – which are still necessary as back-up when renewable energy is not available – are under pressure. This is caused by an abundance of non price-driven green energy which strongly affects the energy market and at times even causes negative prices in Germany. At the same time, subsidised renewable energy from Germany has lowered prices in the Netherlands.

“We aim for balancing the changes in the German electricity supply, which is affected by large amounts of subsidised renewable energy being fed into the grid.”

From our position as a trusted partner for government – and indeed all of our stakeholders – we supported the German politicians in developing views on the deceleration of the offshore part of the Energiewende to achieve its aims in a way that does justice to the market, German society and the German economy.

Offshore activities

Another balancing act is between onshore and offshore energy. Of all sustainable energy sources, solar and wind hold particular potential. As such, offshore energy production has been earmarked in some parts of Europe as a priority area for investment and government support.

Offshore certainly has its advantages as a source of green energy because it is less disruptive to the



landscape and is located far away from inhabited areas. Faced by the ambitious time schedule of the Energiewende, we are making substantial investments in offshore grid connections. Also, we took our responsibility and exerted influence by helping settle the issue of offshore liability. This resulted in a legal and regulatory system which provides more clarity on the risks of offshore projects and makes them more attractive to investors. Recent changes to the offshore objectives were presented by the new German government at the end of 2013. This will help to develop the Energiewende at a responsible pace.

Thanks to our experience in Germany, TenneT is now the global leading expert in offshore electricity transmission and we are confident that this know-how can be put to good use in the Netherlands, which is expected to follow a similar though less demanding policy direction compared to Germany.

“Thanks to our experience in Germany, TenneT is now the global leading expert in offshore electricity transmission.”

Social responsibility

We take our responsibilities towards the environment and society very seriously, always taking into account the impact of our own actions and business decisions. In the past year, we worked hard to gain acceptance and balance the interests of concerned citizens in the Netherlands and in Germany about the necessary expansion of the grid, since growing demand for electricity and integration of renewable energy sources makes this inevitable. In some instances, where appropriate, this means adapting our plans. Fortunately, we are in a position to do this due to the innovation skills we have honed in recent years. We are in fact the first TSO to lay significant amount of underground cables in the heart of the grid system and in the middle of the densely populated area in the Randstad – 380 kV project. As part of this project, we also designed and installed the newly-developed 'Wintrack' electricity pylons, which have significantly smaller electro-magnetic fields and less visual impact in the landscape.

Safety

Our top priority is at all times to ensure the safety of our employees – and all other parties involved in our activities. As the dynamics of our business are shifting and offshore is becoming increasingly important, we are acutely aware of the risks to our employees and contractors in particular. Due to its nature, working offshore is inherently more risky than onshore in terms of safety, particularly in the construction phase. We are therefore strengthening our safety culture and stimulate further improvements by our contractors. Our aim is to achieve a similar safety standard to the oil & gas industry, which is the basis for our Safety Vision 2018 that is currently being developed. Safety is also related to copper theft and the danger this brings to employees and society.

In order to achieve a higher level of safety, we initiated several programmes, such as a full day of safety training for all employees, and so-called safety walks carried out by senior management. These programmes will continue and be expanded in 2014.

Financial

We aim to balance the financial interests of our stakeholders, providing adequate returns on the one hand, while on the other ensuring that transmission of energy is efficient. TenneT's financial performance remained sound in 2013 and our credit ratings were stable and in accordance with government policy and regulatory assumptions at A- and A3, by Standard & Poor's and Moody's, respectively.

In its policy on state-owned enterprises ('Nota Deelnemingenbeleid Rijksoverheid 2013'), which was published in October 2013, the Dutch Ministry of Finance stated that it wishes to maintain its long-term ownership of TenneT and for now does not intend to seek financial investors to take a minority shareholding in TenneT at this stage, given the vital importance of our electricity networks to society. At the same time, the Ministry expressed that it is open to explore whether strategic cross-participations with other TSOs would be feasible.

Besides the equity financing by the Dutch State in connection with our Dutch operations, additional equity is provided by investors in offshore projects in Germany. In 2013, we expanded our cooperation with Mitsubishi Corporation as a financial investor for two additional German offshore projects. We continue to look at this type of equity financing for future projects. There seems to be ample interest and we are actively engaging with potential financial investors for specific projects that will start in the coming years.

“Both in Germany and in the Netherlands, it is imperative that our activities are supported by realistic, sustainable tariffs and a solid regulatory framework.”

During 2013, we strengthened our financing position with the successful issue of a EUR 500 million senior unsecured bond under the Euro Medium Term Note Programme. Also, the European Investment Bank (EIB), a longstanding financial partner of TenneT, committed EUR 500 million to the construction and operation of three German offshore connections. This is on top of EUR 600 million committed previously by EIB for the BritNed project and the Randstad 380 kV projects.

Both in Germany and in the Netherlands, it is imperative that our activities are supported by realistic, sustainable tariffs and a solid regulatory framework. In the fourth quarter of 2013, the Dutch regulator published its decision on the revenue cap for 2014-2016. This decision implies a significant reduction of regulatory income in the coming years. We believe this will have a negative impact on the necessary investments in the Dutch high-voltage grid, as it will be more difficult to achieve a reasonable rate of return on those investments. Also, this may hinder the realisation of broadly supported objectives relating to the transition to a more sustainable energy supply system. We have lodged a pro forma appeal against the regulator's decision in December 2013 and will further substantiate our views during 2014.

15 years of TenneT

Finally, it is a good moment to commemorate that, although there are still many interesting challenges ahead, we have come a long way in the first 15 years of TenneT. With the issuance of the Electricity Act of 1998, TenneT was appointed as independent transmission and system operator of the national transmission grid. With the acquisition of the German transpower stromübertragungs GmbH in 2010, we became Europe's first cross-border high-voltage TSO for electricity.

Our jubilee year was underlined by our move to our new Arnhem headquarters at the end of 2013: the Mariëndaal Centre of Excellence. The new building takes as much advantage as possible of its surroundings in terms of light and resources, and offers our employees flexible working arrangements. Sustainability has been a key driver in the development of our building, amongst

others focusing on energy usage and use of reusable materials. At current, the building ranks among the top 25 sustainable buildings in the Netherlands.

“Looking ahead to 2014 and beyond, TenneT will focus on consolidating its growth and progress, reaping the benefits of synergies and pooling resources between Germany and the Netherlands.”

Looking ahead

Looking ahead to 2014 and beyond, TenneT will focus on consolidating its growth and progress, reaping the benefits of synergies and pooling resources between Germany and the Netherlands. Our core processes are at the heart of everything we do and we will build on this in the coming year – all the better to carry out our responsibilities and balance our stakeholder interests in the years to come. In the outside world, changes will likely continue to be dynamic. It is important to consider the effects of the rapid growth of renewable energy, as well as the increasing importance of European energy policies and the development of subsidy systems and incentives by national governments. In these discussions, TenneT is committed to playing a strategic role.

It goes without saying that none of this could have been achieved without the efforts and commitment of all of our employees and other stakeholders. We greatly appreciate your support and look forward to working with all of you again in the year ahead.



Vision, mission and values

Vision

Our society has decided on the large-scale introduction of renewable energy, the generation of which has changed the dynamics of supply. At the same time, the dependence on electricity increases further, which demands continuous reliability levels. To cope with these developments, the European electricity market needs to become more integrated. Sound market design, technical and operational innovation, storage solutions and adequate grid capacity are all required to continue to match supply and demand across borders.

Mission

To provide security of electricity supply in the markets we serve and to pursue, as a leading Transmission System Operator, the development of an integrated and sustainable North West European electricity market.

Brand values

Responsible

In the dynamic North West European electricity market, we offer society and businesses our full commitment to

maintaining grid stability and enhancing the high-voltage infrastructure, enabling the large-scale use of renewables.

Engaged

We are intrinsically driven by the technical, operational and societal challenges of the energy transformation and the pursuit of a North West European electricity market.

Connected

Meeting the current and future needs of society, businesses and consumers requires a concerted effort of all stakeholders. We take initiative, are transparent and connect internally as well as externally.

Core values

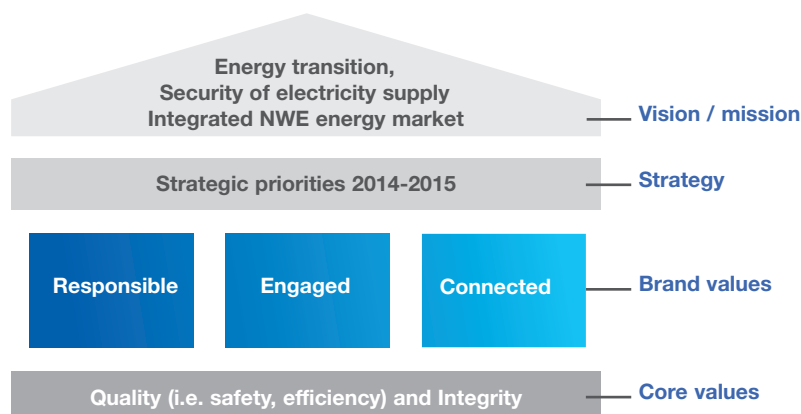
Quality

Quality guides us in everything we do, as we work to meet the need for uninterrupted electricity at a reasonable price. We apply the highest [safety](#) standards, and work as [efficiently](#) as possible.

Integrity

Integrity reflects our moral principles, which include being open, honest and respectful to each other.

The stakeholder value proposition house



Strategy

As TSO for the Netherlands and in Germany, as well as being the first cross-border TSO for Europe, TenneT plays a pivotal role in a sector that affects society at many levels. We are passionate about our business and aim to deliver the maximum benefits to society in the financially most viable way for our broad range of stakeholders.

Our role is to facilitate the electricity market for the benefit of all end-users, while adhering to stringent Dutch and German guidelines and regulations. All important strategic decisions are taken in consultation with TenneT's shareholder, the Dutch State. Safety, environmental responsibility and stakeholder dialogue and engagement are critical in everything we do and TenneT's people are at the very heart of this. It is they who allow us to stand out through operational excellence and innovation. They are capable, committed and passionate about their work and we aim to empower them to deliver their best each and every day. The better we do our job, the better the electricity system and market will function, for the benefit of all stakeholders.

Our strategy is twofold:

To ensure a safe, reliable and uninterrupted supply of electricity to end-users in our regions – our 'licence to operate'.

To further strengthen our leading position as a cross-border TSO in North West Europe, working towards an integrated European energy market.

Our licence to operate

In order to ensure security of supply and optimise our efficiency, we are working to harmonise the Dutch 220/380 kV grids, Dutch 110/150 kV grids and the German 220/380 kV grids to the fullest extent possible. We invest substantially in the Netherlands and in Germany, as well as in cross-border connections, in order to safeguard future capacity.

To achieve our goals, we must constantly work towards political and social acceptance for the necessary grid expansion. We are exploring solutions to further minimise our impact on the environment and local residents, including technological innovations such as underground cables and slim line pylons.

It is important that we optimise our capital structure and operating costs so that we can cover necessary investments and expansion of the grid and further strengthen our leading position as a cross-border TSO in North West Europe.

Leading position in North West Europe

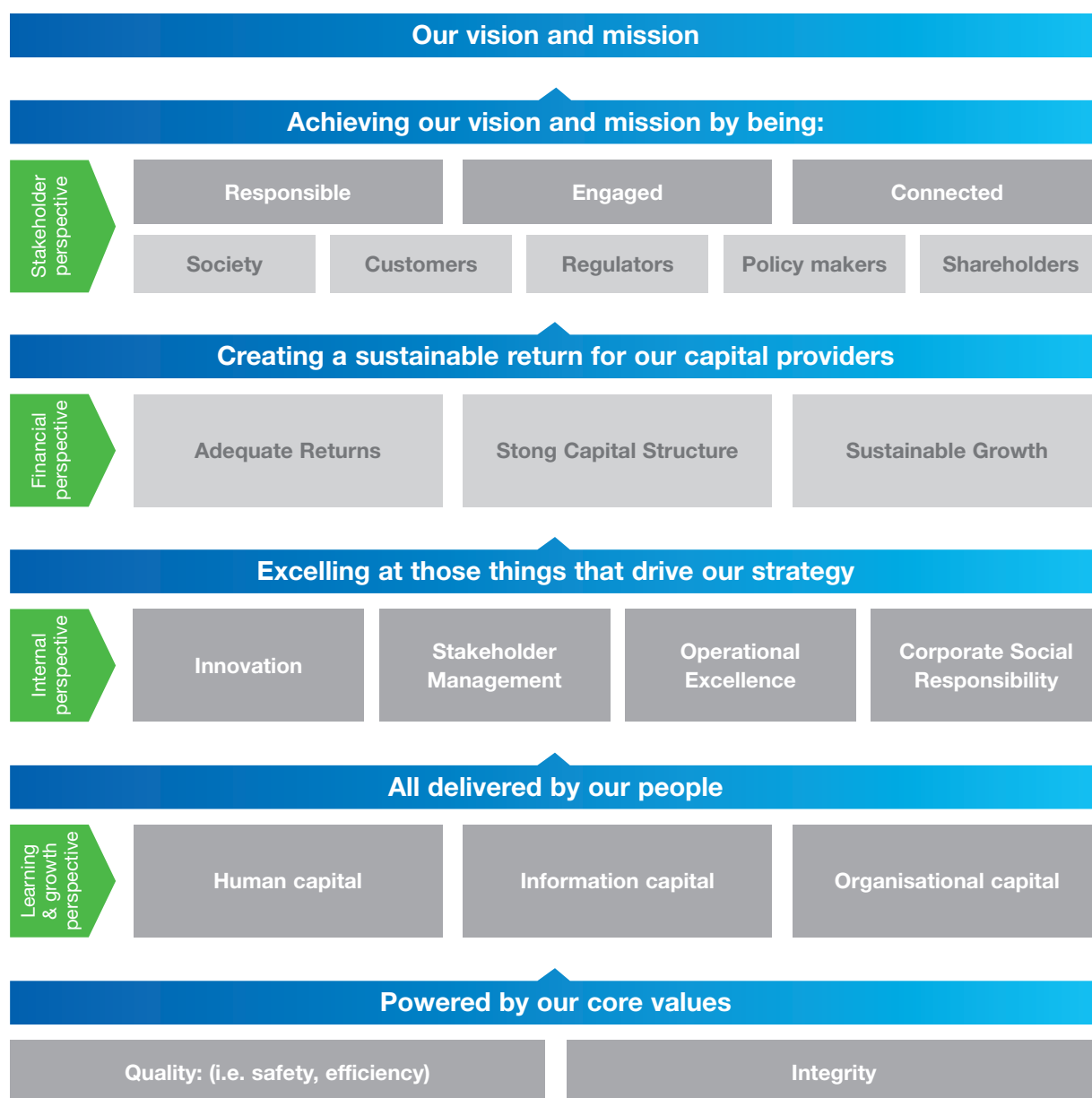
In order to strengthen our leading position as a cross-border TSO in North West Europe, and working towards a European energy market, we are committed to stimulate and facilitate the debate, as well as invest in sophisticated regional, national and international initiatives. Additional connections are required to balance the grid and facilitate the transport of sustainable energy.

TenneT is represented in international organisations that have a role to play in the further integration of the European electricity market. This is a complex matter that concerns wholesale markets, system development and grid operations. TenneT actively participates in industry associations, such as the European association of TSOs (ENTSO-E) and is in dialogue with the European Agency for the Cooperation of Energy Regulators (ACER). Our aim is to facilitate and influence a central platform for these discussions and, in the process, bring our key concerns as well as our innovative ideas to the table.

The security of energy supply is key to our strategy and objectives. European market integration is helping TenneT's customers in this regard as they can benefit from the price convergence with neighbouring countries. Securing the energy supply also means maintaining the highest standards of safety, minimising the impact of our operations on communities and optimising the use of renewable energy.

TenneT's grid investments are in part driven by the growing role of renewables in Europe, including energy from offshore wind in the North Sea, off the German coast, and cabled connections to hydropower in Norway. New connections allow TenneT to provide consumers with access to new energy sources across Europe and offer better capabilities to increase utilisation of certain renewable energy at moment of surplus.

Strategy map



Evaluating our strategic decisions

During 2013, at the request of our shareholder, an independent consultancy firm made an evaluation of the acquisition of transpower stromübertragungs GmbH in 2010. They assessed the impact of the acquisition on our financial and operational performance, as well as strategic fit. Moreover, the acquisition was assessed in terms of its contribution to ensuring a safe, reliable and uninterrupted electricity supply to the end-users in the markets we serve. The evaluation took both the shareholder and company perspective into account, looking at the effects both in the Netherlands and Germany.

The report confirmed our internal conclusions that the transpower acquisition has made a positive contribution to the realisation of our strategic objectives and value creation for our shareholder and other stakeholders. This was confirmed both in the financial evaluation, looking at the effects on, amongst others, the return on

invested capital and financial position, and in the operational assessment. The cooperation between the Dutch and German organisations, particularly in system operations and asset management, has proven to be beneficial to the effectiveness and robustness of TenneT's operations and has provided opportunities in managing volatility and cost of balancing the electricity supply and demand. Joining forces in the Netherlands and Germany has given TenneT a stronger position in the North West European market and benefits from sharing knowledge and expertise in areas such as grid harmonisation initiatives, cross-border electricity transmission and trading, market coupling and technological innovations.

The evaluation also identified lessons learned and future areas for improvement. These primarily focus on the further development of our long-term vision, taking more advantage of synergies in procurement and realising higher price convergence through market coupling and an increase of interconnector capacity.

Stakeholders

TenneT plays a vital role in society, transporting electricity and monitoring the balance between the supply of and the demand for electricity – 24 hours a day, 7 days a week. We are the linking pin between electricity producers and consumers, ensuring a reliable and uninterrupted supply of electricity to our 36 million end-users. As part of this, we support the development of an integrated North West European energy market, which we consider imperative for contributing to an efficient, reliable and sustainable energy supply.

Why stakeholder dialogue?

To perform our work and meet our end-users' need for transmission and system services, it is essential for us to have an on-going and fully engaged dialogue with our stakeholders. This allows us to address and weigh up the many different perspectives in today's complex and challenging energy market, including politics, financial investors, Non-Governmental Organisations (NGOs), industry and society.

Our goal is to reach a good balance between public and private interests, in an international context. This means we listen carefully to all people and parties involved and look for the best long-term solutions for society. We carefully consider questions raised and participate fully in the public and political debate. We have a transparent attitude to policy development on the national and international level. For TenneT, it is important to clarify our position and role and to see how our strategy can bring best results for society and our company.

Energy transition requires technical and social innovation

The challenge of the energy transition is mounting. How can we ensure that our grids perform and guarantee that sustainable energy is reliably and safely transported through Europe?

In the Netherlands, how can we contribute to the 16% sustainable energy target, to be realised by 2023?

To achieve these goals, we cannot act alone; we need to partner with our stakeholders. Building relationships with stakeholders at international, national, regional and local level is crucial – it maintains our licence to operate. We strive to have the best solutions in place and gain public acceptance. We want to perform within a legislative and regulatory framework that supports our ambitions and plans for the future, extending to 2030 and beyond. We are also keen to be closely involved in discussions around the transition to a new energy market model and to help ensure it is executed in the most sustainable way possible.

As the essence of our work is about connecting society, we need to explain our innovative and technical solutions, work towards consensus and build bridges between technology and people. This is why we like to collaborate, sharing our expertise and our plans and seeking dialogue with all stakeholders in the energy arena, whether they are national or international politicians, or people in communities affected by our projects. Our stakeholder approach is deeply embedded within TenneT and also extends to the suppliers we work with. In everything we do, we take account of our stakeholders' interests, which are often highly diverse.

Who are our stakeholders?

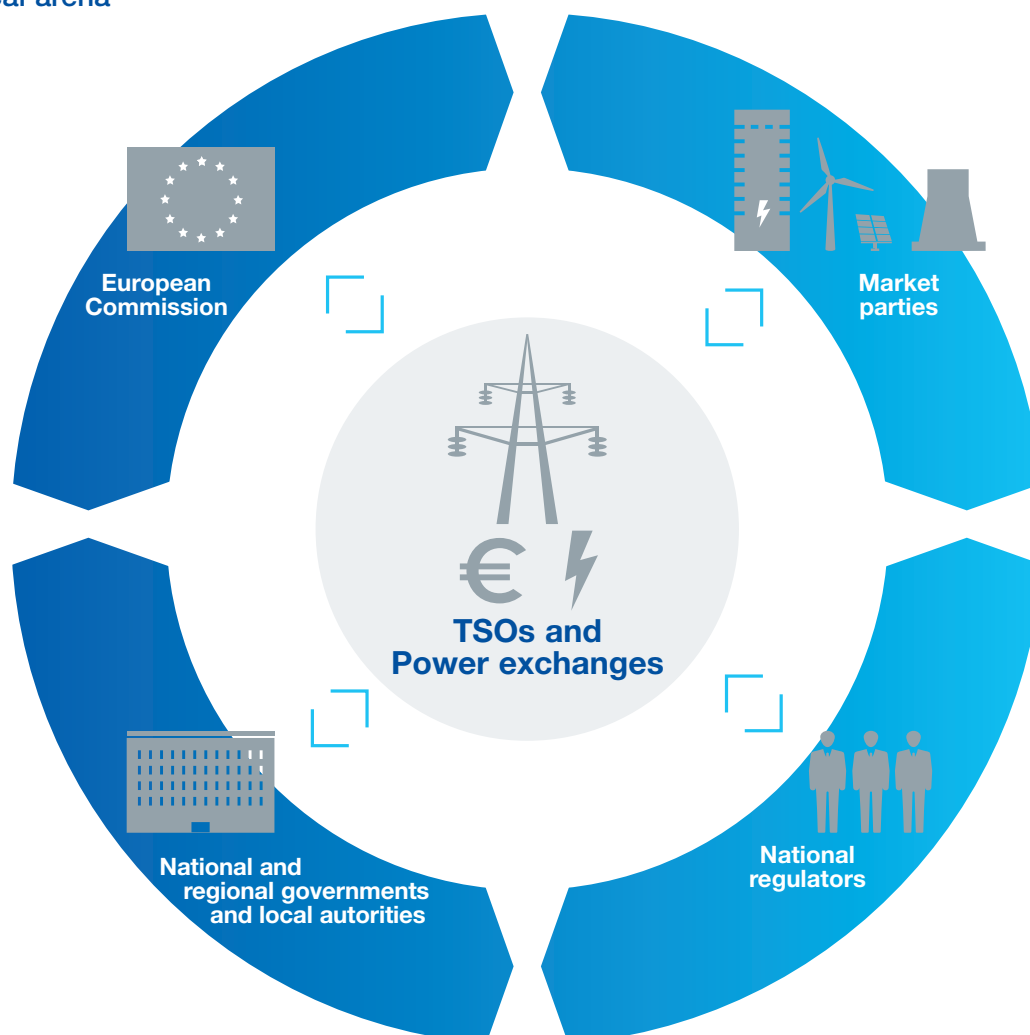
We have identified several stakeholder groups:

- Our shareholder
- Governments, political parties and regulatory bodies
- Financial investors and rating agencies
- Local communities
- Non-Governmental Organisations (NGOs)
- Media
- Suppliers
- Customers
- Employees

Our shareholder

We have close contacts with our shareholder, the Ministry of Finance, on strategy, planned investments policies and further aspects related to the position of being state-owned. In 2013, the Ministry issued its policy on state-owned companies, the 'Nota Deelnemingenbeleid Rijksoverheid 2013'. In this policy, the Ministry reconfirmed the importance of public ownership of the Dutch high-voltage electricity grid. As such, there is currently no intention to partly privatise TenneT. However the Ministry indicated it is open to explore whether strategic cross-participations with other TSOs in Europe would be feasible. The Ministry of Finance has confirmed its commitment to fulfil TenneT's capital needs for the future investment programme in the Netherlands.

Political arena



Political stakeholders in The Hague, Berlin and Brussels

We share our expertise and experience with politicians and society at large, advising political stakeholders in The Hague, Brussels and Berlin on energy policy and how to achieve policy goals. We maintain good relationships and regular dialogue with governmental and political bodies at federal, regional and local levels. As a key player in the energy sector, we advise political stakeholders on the development of the energy market (market design, renewable energy).

In 2013, the Energy Agreement has been an area of focus in the Netherlands. As a follow-up to this, we are now preparing advice on offshore wind energy and the key role we want to play in that sector. More activities on this are foreseen in 2014. In Germany, the focus was on the impact and pace of the transition to renewable energy, its consequences on the market and on our business.

We have regular meetings and working visits with Members of Parliament of all political parties in the Netherlands and Germany. We also have regular contact and meetings with the Ministries of Economic Affairs in both countries on policy issues related to (new) legislation and regulation.

As far as the Dutch political agenda is concerned, we foresee that our role in the offshore energy market will change as a result of the Energy Agreement of September 2013. Offshore wind is crucial to realising the sustainable energy target of 16% by 2023 and grid development plays a critical role. In order to achieve the necessary speed and efficiency, it is essential to develop a central, integrated master plan covering both energy generation and grids. Drawing on our experience of developing offshore wind infrastructure in Germany, we are confident that we can play an important role in this.

In Brussels, we maintain a continuous exchange with political stakeholders and the administration of the different European institutions. We had meetings with officials of the European Commission on different issues, including certification of the German TSO and the

content of a Green Paper titled 'A 2030 framework for climate and energy policies'. This contains new guidelines on state aid and market design. Last year we organised an 'energy breakfast meeting' – discussing regulation and European cooperation – for Members of Parliament, representatives of associations and other interested parties. More meetings are foreseen in 2014.

Another initiative which we have helped to bring about is 'Platform Impuls' in the Netherlands. Organised as two meetings per year, these are designed to hear the main concerns and interests of our stakeholders, which, in turn, helps us to improve our performance.

As well as working closely with the political parties, we have a close relationship with associations such as VNO NCW, which is a supportive partner of TenneT.

Recognising the importance of independence, we did not contribute any monetary value of financial and in-kind political contributions, directly or indirectly.

Financial investors and rating agencies

Sufficient funding for our extensive investment programme is one of the pre-conditions for the success of the energy transition in the Netherlands and Germany. In order to keep ample funding options open, we are committed to maintain an A-/ A3 rating from Standard & Poors and Moody's, respectively. We are in constant dialogue with these rating agencies in order to provide them with the information on which they can base their rating opinion diligently.

The vast majority of our funding comes from the debt capital markets, whereby institutional investors, commercial banks and government sponsored financial institutions (like the European Investment Bank) are investing in TenneT. As a result, we are in constant dialogue with these financial stakeholders, especially at times when long-term funding is required. At these times, we engage with them via road-shows, investor calls and meetings, explaining issues including TenneT's strategy, our credit profile and funding needs.

In order to maintain the targeted credit rating, while having the funding need covered mainly by debt, TenneT needs to fund part of the investment programme with equity. Therefore, at the beginning of 2011, we started to engage with potential equity investors – including infrastructure funds, pension funds and insurance companies – with the aim of selling part of several German offshore wind farm connection systems. After an intense process over the last couple of years, involving constant dialogue with several interested parties, we reached agreement with Mitsubishi Corporation for the financing of four offshore wind farm connections. Following the transactions with Mitsubishi Corporation, several other parties have shown their interest, resulting in an investment and partnership agreement with Copenhagen Infrastructure Partners in the first quarter of 2014.

Local communities

Together with local political stakeholders, and in order to make the energy transition possible, we keep local residents informed about the needs of grid development.

We are fully aware that with high-voltage lines, we enter the social environment of local people; national infrastructure has local impact. When we install new lines, we can try avoiding affecting residential areas. When existing lines are involved, we work extensively with stakeholders to minimise the impact. For example, in 2013, the Dutch government launched a 15 year cabling programme, focused on our 150 kV lines in urban areas. The project aims to address the social concerns of people living close to these lines. TenneT has been intensively involved in the process, working with government and municipal authorities on implementation possibilities, and also looking closely at the legislation framework. After all these priorities have been addressed, we will start executing the cabling programme.

At TenneT it is common practice to reach out to local stakeholders, in regular feedback and public information sessions. In Germany alone, with a view to the large onshore projects that we are working on, more than 500 of these sessions are planned in 2014. We embrace all

ways of facilitating this community engagement, including the use of new technology. For example, we have found that virtual reality can be a valuable tool for showing local stakeholders location-specific models and details, based on real scales and dimensions. In this way, stakeholders can give their opinions based on models allowing them to visualise the project in full. We have found that this approach provides deep insights and a rich dialogue with our stakeholders from an early stage, helping us weigh all interests and plan the optimum solution for all concerned.

The new slim line Wintrack pylon which we developed, is a good example of an innovative solution that addresses an important issue raised by our local stakeholders: minimising the impact of our projects on the environment and society. These Wintrack pylons allow our infrastructure to blend into the landscape, being less visually intrusive than conventional designs, and reducing electromagnetic fields. These play an important role in helping us gain acceptance for pylons above ground. Achieving this kind of societal acceptance is essential if we are going to realise the projects that are necessary to achieve the energy transition on time.

We are conscious that the impact of our projects on nature and local habitats can be significant and we seek to comply with all applicable environmental laws and regulations. We take extensive steps to minimise our impact, often through intensive analysis and by commissioning reports before we begin a project, detailing the potential impact on the environment. We then seek to mitigate and compensate for any impact wherever possible.

We are confident that our approach of building environmental consensus while engaging with local and regional coalitions contributes to improving the acceptance of grid infrastructure.

Innovation underground cabling

Energy infrastructure in our habitat or fields is sometimes regarded as undesirable. As a result, underground construction of lines is becoming an increasing area of

focus. Currently, we are laying 20 kilometres of a 380 kV underground connection in the busy Dutch Randstad region, with 10 kilometres already in use. The length of this stretch, and the scope of the project, is leading in the world today. Together with researchers from the technical university of Delft, and in participation with the technical university of Eindhoven, we are monitoring the results and the influence on the stability of the grid.

With so much still to learn, it is important to caution that an underground 380 kV grid is still a long way off. It is essential that stakeholders understand the limitations of what is possible and the obstacles that need to be overcome, not least underground treasures, like archaeological remains, that need to be protected. This is far more complex than is widely realised. However, we are satisfied that a good start has been made.

Building coalitions with NGOs

We work closely with NGOs, including environmental groups, on our projects and on wider initiatives. An important example is the Renewables-Grid-Initiative (RGI), which promotes the integration of 100% renewably-generated electricity in the European grid.

TSOs and NGOs join forces in RGI to support the build-up of a grid infrastructure in Europe which can handle decentralised and large-scale renewable energy sources. This grid development should be efficient, sustainable, timely, environmentally friendly and socially acceptable to all stakeholders.

RGI members originate from a wide range of European countries, consisting of TSOs from Belgium (Elia), UK (National Grid), France (RTE), Germany (50Hertz and TenneT), Netherlands (TenneT), Switzerland (Swissgrid), Norway (Statnett) and Italy (Terna). It also includes NGOs such as WWF International, Germanwatch, BirdLife Europe, the Royal Society for the Protection of Birds (RSPB), Natuur&Milieu, Friends of the Earth Scotland and the Climate Action Network (CAN) Europe.

Collaborating with these stakeholders within RGI, we share our knowledge and are in continuous dialogue to tackle technical, social and environmental issues. Through the EU-funded RGI-BESTGRID project, NGOs engage in the stakeholder mapping and the design of the communication with the public, on behalf of our German grid project SuedLink. This is one out of four BESTGRID-projects.

We launched a collection of joint initiatives in 2013, aimed at working more closely with environmental groups on our projects. For example, TenneT collaborates in the Ecological Energy Network, a Dutch pilot project we initiated to look at how best to align ecological and energy ambitions in the Netherlands.

Media

As our relevance to society increases due to the nature of our business, so does our visibility. We are conscious of the attention our projects attract and are very aware that it is up to us to communicate effectively with all our stakeholders. In order to stay connected to this wide-ranging dialogue, we regularly analyse our media coverage to measure the effectiveness of our communication efforts. Also we will continue conducting regular stakeholder interviews for our annual reputational survey. Results of these surveys will be shared and discussed with our management and our employees.

Suppliers

TenneT strives to intensify partnerships with our suppliers, recognising their importance for our operations. We do this by organising market consultations, combining the further development of integrated solutions on design, engineering and execution and focusing on standardisation to achieve more efficiency. In this, our suppliers are our partners in the value chain. Our Procurement department plays a key role when it comes to these stakeholders, ensuring the correct quality (including compliance to safety regulations), terms, timing and delivery of the goods and services we purchase. Objectivity, transparency, proportionality and non-discriminatory behaviour are our core values, based on European tender regulations.

Customers

For our customers, we conduct regular customer-satisfaction surveys, feedback sessions and market consultations to find out how we can improve. As a concrete example of how we are taking this one step further, TenneT is creating a 'MyTenneT' IT environment for connected parties. More on our relations with customers can be found in the chapter 'Markets'.

Employees

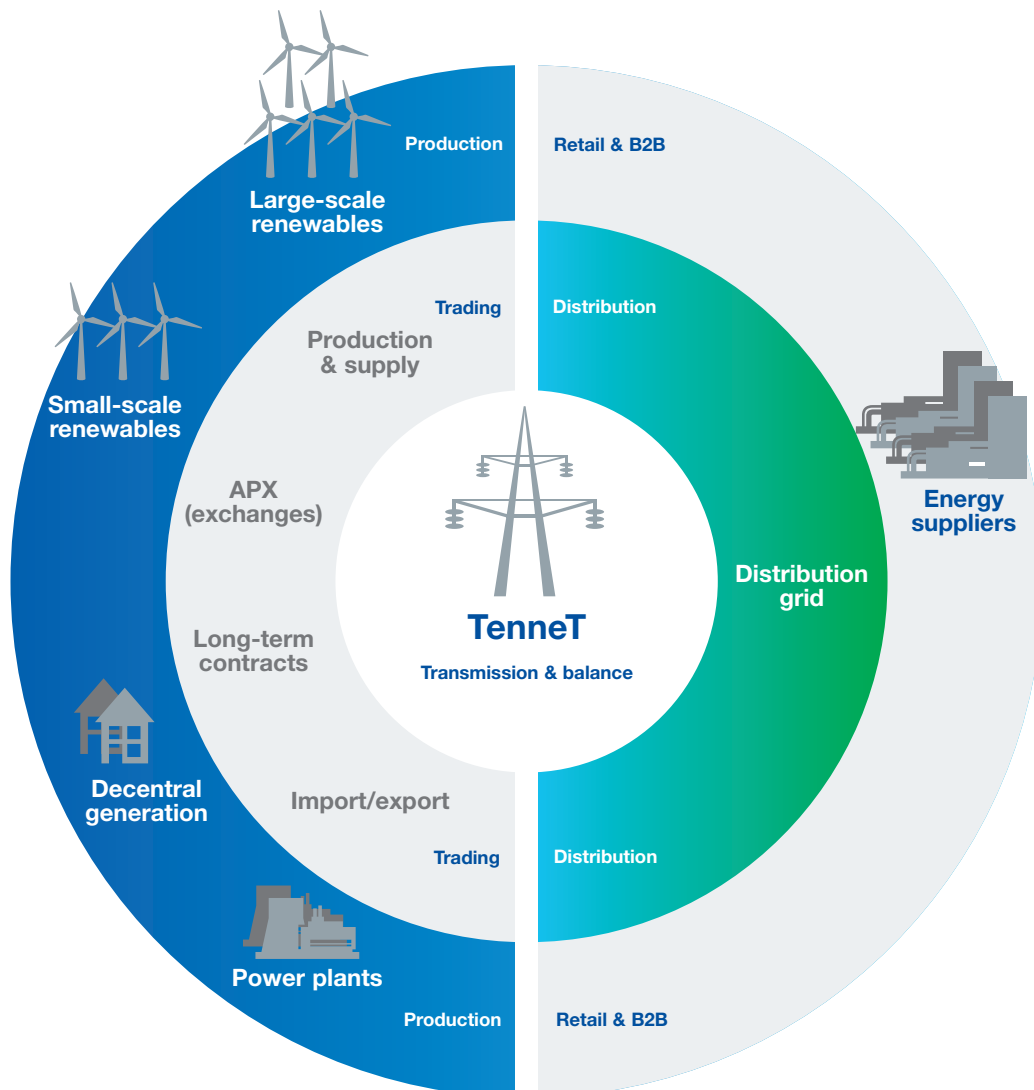
Our ambition is to be one of the top employers and best places to work in the European energy sector.

In this, our employees are our most important asset.

That is why we conduct Employee Satisfaction Surveys every two years to find out how our employees feel about working for TenneT, and what they value. We focus on health and safety and invest in leadership and talent.

As evidence of this, we were recently awarded third place in the FOCUS ranking in Germany. We were ranked in the category 'best employer' for the raw materials, energy, supply and disposal industries. This is a review carried out on the basis of independent surveys. More on our work to create a fulfilling and rewarding workplace can be found in the chapter 'employees'.

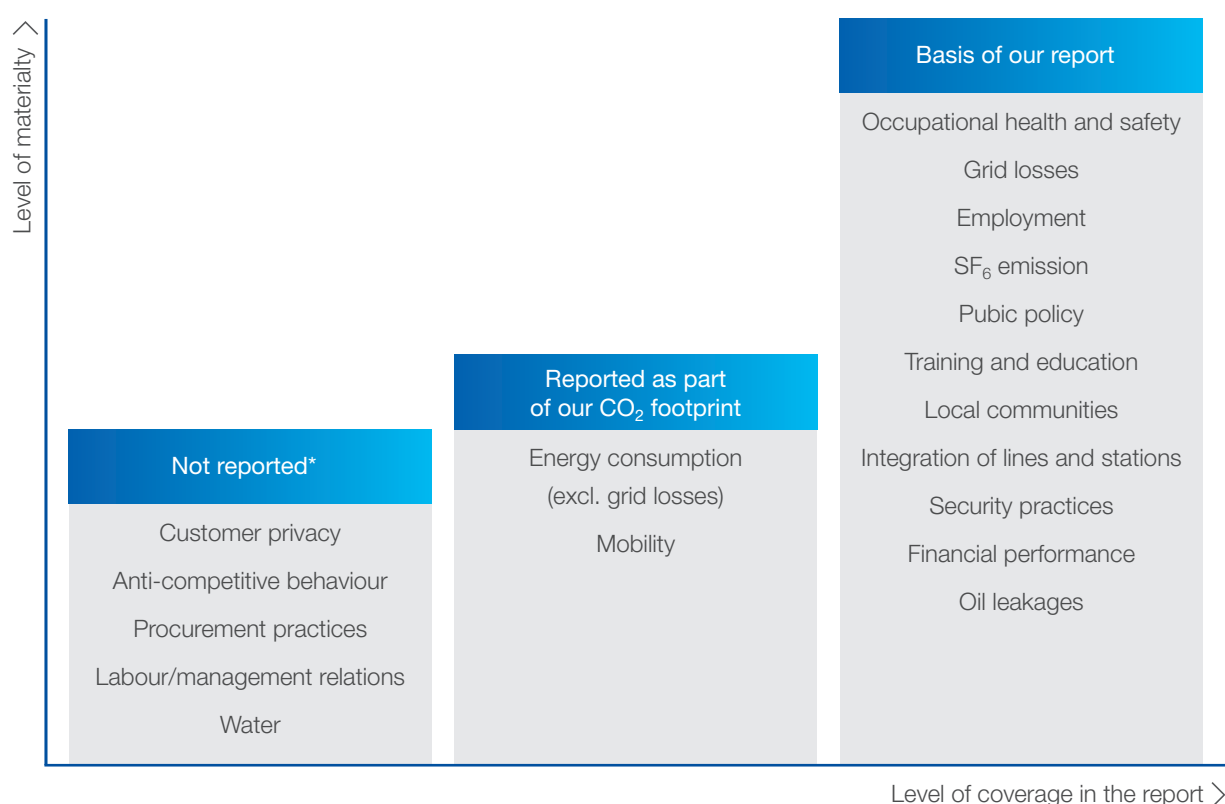
TenneT in the supply chain



Materiality

In this annual report, the focus is on the topics which are most relevant to TenneT's strategy and stakeholders. The selection of topics reported on is based on a materiality analysis.

Materiality Topics



* Not a limitative list

The materiality analysis was set up by a multi-disciplinary core team which made an initial selection of topics, drawn from the viewpoints of our stakeholders and taking into account our strategy as confirmed by our Executive Board. The core team consisted of representatives from the Corporate Social Responsibility (CSR) work group, Corporate Communications, Public Affairs, Corporate Safety & Security and Corporate Control. The topics examined in the first instance by the core team were taken from the Global Reporting Initiative (GRI) guidelines

and organisation-wide CSR interviews, which took place mid 2013.

Validating the analysis

We validated the outcome of the first round of the materiality analysis against the outcome of the stakeholder dialogue and other input, such as our customer and employee satisfaction surveys. We also conducted a media analysis to verify whether the outcomes of our materiality analysis differed from how the media report about us.

The core team then presented the list of material aspects to a selection of senior managers within the organisation, responsible for Asset Ownership, Customers & Markets, Human Resources, Corporate Communications, Public Affairs and Control & Reporting. This delegation of senior management determined the final list.

The outcome of the materiality analysis made clear that the scope of this report is our TSO operations in the Netherlands and Germany. This means that all information presented in this report regarding our policy, strategy, procedures and systems, and the related key performance indicators (KPIs), pertain to our core business and not specifically to our unregulated activities.

The fact that we consider the selected aspects material for reporting purposes does not mean that we do not manage other non-reported aspects.

Our CSR policy and related activities are broader and not limited to the outcome of this materiality analysis.

GRI

The GRI table in the appendix of the integrated annual report demonstrates which aspects we consider relevant to our stakeholders and our strategy, based on the materiality analysis. It also shows which information was provided with external assurance by our external auditor. The table is in line with the new version of GRI guidelines, known as G4. This distinguishes two different levels of application for compliance with the guideline: “core” and “comprehensive”. For the purposes of this report we employ the “core” level. For each indicator, the table refers to pages which elaborate on the topic.

G4 requires an analysis of the impact per indicator.

The material topics which are the basis of our annual report are discussed in the chapters indicated below.

Materiality Topics

Material aspects which are the basis of our annual report	Which we discuss in chapter	Aspect Boundary	Impact on
Integration of lines and stations	Society	Outside of the organisation	Society
Security practices	Society	Outside of the organisation	Society
Public policy	Society	Outside of the organisation	Society
Local communities	Society	Outside of the organisation	Society
SF ₆ emission	Environment	Outside of the organisation	Environment
Grid losses	Environment	Outside of the organisation	Environment
Oil leakages	Environment	Outside of the organisation	Environment
Employment	Employees	Inside of the organisation	Employees
Training and Education	Employees	Inside of the organisation	Employees
Occupational Health and Safety	Employees	Inside and outside of the organisation	Employees and contractors
Financial performance	Financial results	Outside of the organisation	Shareholder and investors



Markets

TenneT operates in a constantly moving market. As one of the large TSOs in Europe, we play a leading role in shaping this market. With planning and widespread collaboration, we strive to further improve and integrate the European electricity market and ensure the security of energy supply.

	2013	2012	2013	2012	2013	2012
Grid reliability	NL	NL	D	D	Total	Total
Total						
Grid availability	99.9999%	99.9999%	100.0000%	100.0000%	99.9999%	99.9999%
Interruptions	9	8	-	-	9	8
Energy not supplied (MWh)	383	127	-	-	383	127
110/150 KV						
Interruptions	7	8	N/A	N/A	7	8
Energy not supplied (MWh)	80	127	N/A	N/A	80	127
220/380 KV						
Interruptions	2	-	-	-	2	-
Energy not supplied (MWh)	303	-	-	-	303	-

Winds of change

In 2013, the market was again heavily impacted by the shift towards renewable energy, particularly in Germany. The rapid growth of solar in the south and wind farms, especially in the north of the country is affecting the electricity supply in Germany and that of its neighbours. As a result of subsidies, large and volatile volumes of wind and solar energy are being pushed into the system, sometimes even bringing prices down to negative values.

TenneT has shown it is able to deal with this fast-changing landscape. As one of the four TSOs in Germany, one of the leading countries in the introduction of wind energy, we actively engage in discussions about the effect of this shift – also known as the *Energiewende* – on the security of supply and we are happy to see the authorities responding to our concerns. TenneT expects the trend towards more sustainable energy to continue, not only in Germany, but elsewhere in Europe. In the Netherlands, for instance, the Energy Agreement (*Energieakkoord*) was signed, which means there is a basis for the expansion of onshore and offshore wind

farms. TenneT embraces these decisions as we see the need for sustainable energy and a reduction of the CO₂ footprint of the entire sector. We are fully capable of doing our share in the work to connect these wind farms, which is a technological and innovative challenge.

Energiewende – sustainable energy is needed, but comes with risks

The rapid implementation of renewable energy sources in Germany has made the impact of this trend increasingly clear. The changing landscape also highlights issues in the production chain, particularly for flexible power generation. Wind and solar energy is volatile by nature – not enough or too much wind can quickly reduce the input on the grid by wind farms and less-than-expected sun on a particular day has the same effect.

TenneT is doing its part to connect wind farms to the grid – a legal requirement in Germany. Ongoing discussions in the Netherlands and Germany about the further development of sustainable energy supply have an important impact on TenneT's investment agenda.

We have demonstrated the ability to deal with this changing landscape through a number of investment and financing partnerships, more of which will be needed to secure a reliable and sustainable electricity grid. We are well underway with our investment programme and have been able to deliver profitable growth in the process.

Despite our ability to connect the German wind farms, TenneT has issued warnings and concerns about the consequences of the rapid energy transition in Germany. The volatile and unpredictable behaviour of sustainable energy means we now have to intervene more often to keep the grid in balance, particularly in Germany. Despite these difficult circumstances, we managed to keep the overall availability of our grids at 99,9999% of the time.

The sustainable energy production capacity in the Netherlands is also likely to increase in the coming decade following the Energy Agreement (Energieakkoord). With this, planning for new wind farms on land and at sea can go ahead. TenneT hopes to get clarity on these plans soon, as it takes time to facilitate these developments and build the infrastructure needed to connect wind farms to the existing grid.

European solution – European integration

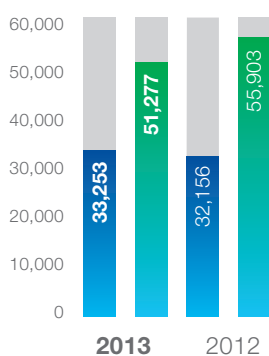
The European Union and member states recognise the challenges we face to ensure a reliable supply of electricity. We would like to see a European solution to the challenges, instead of each country trying to tackle

their issues separately. We support the conclusions of research into possible solutions as provided by the German E-Bridge and the Dutch UMS Groups – research which was commissioned by TenneT – which suggests that producers are only paid for the energy they deliver – the so-called ‘Energy Only’ model. This mechanism would organise supply and demand in the European market in a cost effective manner. It would also require a reform of the subsidy system in Germany.

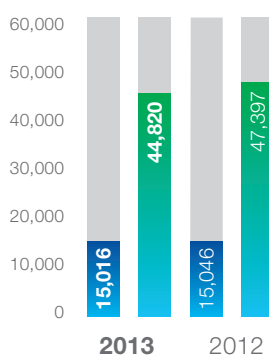
The integration of the European market – especially in the northwest – has already come a long way. The North West European countries are closely linked and grids are connected via interconnectors. TenneT is working to increase and strengthen these. We are currently working on a new connection between the Dutch city of Doetinchem and Wesel in Germany. Scheduled for operation in 2016, this 380 kV connection will strengthen the international exchange of electricity in North West Europe. Where the energy market is operational across borders and the grids of European countries are linked, the legal and regulatory frameworks are still organised on a national level which makes it difficult to completely integrate the markets.

An important factor in this integration process is the development of European Network Codes, both for the TSOs and the electricity market as a whole. In these codes the sector tries to capture aspects of the market which are dealt with at a national level and attempts to harmonise them, or at least coordinate them, at a European level. This is relevant, for instance, to operational reserves which can be imported from abroad, and to the way cross border capacity is calculated. TenneT is very active in this process through ENTSO-E and is working hard with this European organisation of TSOs to further stimulate integration.

Imports (GWh)



Exports (GWh)



■ Netherlands ■ Germany

These are all steps towards a fully integrated energy market. But whatever the outcome, as a cross-border TSO, TenneT wants to see a solution that ensures the security of supply through the availability of flexible production capacity and which also enables us to invest in the infrastructure needed to transport the electricity capacity.

Customers

TenneT recognises three specific customer groups; connected parties (producers, consumers and regional grid operators), balance-responsible parties and metering companies.

Customers are very important to TenneT. On one hand, we provide them with transport and system services, while on the other they are essential contributors to the security of supply. Some customers even deliver services to TenneT in this respect – regulating and reserve energy and emergency capacity, for example. This is why TenneT regards the relationship with its customers as a business partnership, collaborating with them and proactively seeking to fulfill each others requirements.

To appreciate and understand customer interests and requirements, we engage with them in various ways. Besides our regular customer contacts, we carry out customer satisfaction surveys to check that their expectations are being met and what improvements we can implement to service them even better.

Customer satisfaction (%)



The survey, published in 2013, showed that customers were more positive about TenneT compared to 2012. Although customers were generally happy about the clarity of the answers they received and the help they got in finding solutions from TenneT staff, areas for improvement include the time taken to answer customer questions. In order to speed up the reaction time, TenneT invested in improving the internal organisation, making it even more coherent and consistent, so that it deals effectively with customer issues.

An example of the improvement of the quality of services is that TenneT is introducing a MyTenneT IT-environment for connected parties, balance-responsible parties and metering companies in the Netherlands.

CertiQ – moving to a European market for certificates

CertiQ – a 100% subsidiary of TenneT – issues certificates guaranteeing that energy has been produced from renewable energy sources. It was assigned this task by the Dutch government. The Guarantees of Origin (GOs) – as these certificates are called – are the only valid proof in the Netherlands that energy was generated sustainably. This enables end-users to use GOs to claim their green consumption. These GOs must then be cancelled to ensure single use. CertiQ's data on renewable energy production are also used by RVO – an agency of the Dutch government – to help determine the support they issue for Dutch renewable energy production. GOs can also be traded within Europe.

The GOs help secure transparency on the origin of energy for suppliers and consumers. In turn, this helps to build an integrated and strong internal energy market. Since 2009, members of the EU are obliged to recognise each others' GOs. In 2013 large countries, including Germany and France, implemented GO systems in their markets and connected to other markets in Europe. This requires consensus between member states on the pre-requisites for issuing, trading and cancelling GOs.

Certificates issued (NL) (in million)

2013 NL	12.1
2012 NL	12.8

To this end, CertiQ is a member of the Association of Issuing Bodies (AIB), an international partnership of European Guarantee of Origin organisations. The AIB strives to standardise certification systems to facilitate trade in sustainable and other forms of energy.

In 2013 CertiQ issued 12.1 million certificates for electricity generated in a sustainable manner in the Netherlands,

Registered installations (NL) (#)

2013 NL	12,401
2012 NL	11,876

a 6% decrease compared to the 12.8 million in 2012. However 2013 also showed an upward trend in GOs supplied for prove of green consumption. This number increased by 5 million GOs to 40 million. This means that more renewable energy was consumed by both households and wholesale customers. The number of registered installations for the production of sustainable energy increased from 11,876 in 2012 to 12,401 in 2013.

Keeping the lights on



Responsible

Modern society is highly reliant on a continuous supply of electricity. TenneT is responsible for providing this security of supply. The North West European market, in which TenneT operates, is complex and dynamic. TenneT's operations are influenced by political decisions and by the transition to renewable energy, which has gained momentum in Europe in recent years. TenneT is taking a leading role in developing a truly North West European market.

The generation of renewable energy is not driven by demand or price. As a result, the energy flows within the grid have become more volatile and less predictable. This requires continuous attention from our Control Centres – particularly in Germany, where energy flows have changed significantly due to the transition to sustainable energy (Energiewende) and the phase-out of nuclear power plants. Active interventions in the grid in order to safeguard the security of supply have become a daily occurrence, especially as cross-border electricity transport increases. This is also the case in the Netherlands, which frequently serves as a transit country for electricity flows.





Society

Our work at TenneT goes to the very heart of society and affects all those living in it. Modern society cannot function without electricity, and its sustainable and secure supply is a challenge that faces us all. We are taking an active role in all aspects of society and are fully aware of our responsibility in building and nurturing a positive and solid relationship with all who live and participate in it. This is essential for us and identifies the kind of company we want to be.

Quality (including safety and efficiency) and integrity are ingrained in the DNA of TenneT and make us a solid and trusted partner. As such, we are committed to maintaining close ties with all who are affected by our work in keeping the electricity system running, be they (local) government, public interest groups, our own employees, industry organisations or fellow European grid operators.

Connecting citizens

In our ongoing efforts to secure the supply of electricity and to facilitate the energy transition we have developed extensive investment programmes to build new power lines or replace existing parts of the grid. This can be an intrusion into the lives of local people and businesses and we do all we can to ensure that the process runs as smoothly as possible for all concerned.

The Netherlands

An example of the impact of our operations on society can be seen around the Randstad 380 kV Zuidring in the Netherlands, in the connection between the villages of Bleiswijk and Wateringen. Completed in 2013, this high-capacity electricity highway through a densely populated area is an important step in strengthening the Dutch grid and is a unique and innovative project.

Not surprisingly, an undertaking of this magnitude in such a populated area met resistance. Local inhabitants around the city of Delft opposed the installation of this part of the grid. After close consultation, we agreed to address some of their concerns. Not only did we

manage to take part of the grid underground for a 10 km track – the first time this has been done anywhere in the world in such a densely populated area – but we also used innovative Wintrack pylons. These are less invasive in the landscape and greatly reduce electromagnetic fields around the power lines.

TenneT continuously seeks to reduce its electromagnetic footprint. In 2013, two studies were conducted with respect to electro-magnetic fields close to TenneT's grid. The first study relates to magnetic fields near power lines. The 0.4 μ T magnetic zone is important to determining spatial plans and to modifying existing power lines. Based on a new guideline by the Dutch Institute for Public Health and the Environment RIVM (version 3.1 issued on 1 October 2013), the consequences to the width of the magnetic zone around multi-circuit lines and power lines within the same corridor were investigated. In parallel, the actual loading of all power lines in the Netherlands was determined. The second study investigates the exposure that employees have to electric and magnetic fields during their work activities. Spatial areas where the actual field exceeds the internationally accepted action value were identified both around power lines and in substations.

We also organised meetings with affected residents, giving as much information as possible about the process and the reasoning behind. In the end, there were still people who opposed to the project, but we also received feedback from residents that they understood and accepted why we had to carry out the project.

In order to increase acceptance, TenneT wrote the report 'Samen Schakelen' (Connecting Together) in which we set out guidelines of how we work when new power lines or stations are built or revised. Besides the use of the Wintrack pylon, another example is by working with local residents and artists to make the stations appear more attractive and in harmony with the local environment.

Copper theft is an issue both in the Netherlands and in Germany. These thefts have increased in recent years as the market price for copper has risen. Stealing copper carries serious safety risks, for our employees, for local residents living near installations and for the thieves themselves. In the Netherlands we joined forces with the Dutch police, the Dutch Federation for Metal Recycling, the National Prosecutors Office, the Ministry of Security and Justice and the railway system operator ProRail ('Koperslag') in order to reduce these thefts. As a result, we are happy to say there has been a significant improvement in the past months.

TenneT also uses security staff to spot thefts on or around TenneT assets. Their primary role is to spot thefts in progress and to alert authorities. If the authorities cannot get to the scene on time security staff may proceed with arrests themselves, with proportional action and in due respect for human rights. The security personnel are trained, by their respective employers, to deal with such situations in a professional manner. This level of training and professional attitude is required by TenneT.

In Germany we joined forces with the Deutsche Bahn to address this problem together.

Germany

In Germany, TenneT has the same active and responsible attitude towards society, albeit that the situation is more complex due to the federal political structure and the size of the country. Also, we find that civil resistance in Germany is often fiercer than in the Netherlands which means the relationships within society are different. This makes it more difficult to speed projects along as permits can take years to acquire.

We have found that our society-focused, dedicated and collaborative approach works well in Germany and is bearing fruit. For example, in the region of Schleswig-Holstein, we first entered into an agreement with the municipalities and government on the installation of power lines and then teamed up with them to approach the local inhabitants to introduce our joint plan.

We introduced an innovative approach in German society by building acceptance via the 'Bürgeranleihe'. Citizens were invited to participate in a special bond issue and to benefit financially from the project, which involved building a 150 kilometres 380 kV power line. Although the take up of the bond issue was less than expected, we learned valuable lessons from this project.

In order to achieve local acceptance our multidisciplinary team in Germany has 500 information-gathering meetings planned for 2014. This involves two meetings for each working day, requiring us to open two additional citizens' advice offices in the past year.

This form of open communication towards all in society is relatively new to Germany and is getting positive feedback as we consult those involved before the procedures start. We are open to comments from concerned citizens and try to minimise the impact of new electricity lines by making the visual effect less intrusive.

Europe

Our initiatives to improve the grid and increase public acceptance are also active on a European level. For example, we are involved in the EU-funded project 'Best Grid'. This started in 2013 and handles the development and implementation of four grid expansion projects in North West Europe. These are used to test and evaluate best-practice approaches for speeding up permit procedures and ways to increase acceptance by the general public. The 'Best Grid' project brings together TSOs and NGOs from across Europe such as BirdLife Europe and GermanWatch.

Passion to perform



Engaged

The relevance of energy to today's society inspires our employees. Our staff aims to rise to the challenges posed by the changing North West European energy market and the transition to sustainable energy. These challenges require highly professional people with a passion for performance. TenneT people work to the highest professional standards, both on land and at sea, to ensure that vital infrastructure is designed, built and efficiently managed, both now and for the future. They are driven to overcome financial, organisational and technical challenges. In the past years, we have worked hard on upgrading existing above-ground connections and substations. We are also making huge efforts in the construction of new above-ground connections, underground cables and substations – besides connecting a major portion of offshore wind farms in Germany to the onshore grid. And there is much more to come in the next few years.





Environment

As a transporter of energy and owner of critical infrastructure, both onshore and offshore, TenneT deals with all aspects of safety and the environment on a daily basis. As a company, we are aware of our responsibility to take care of the environment and to limit the impact within our reasonable abilities. However, the transport of energy cannot be realised without affecting the environment to a certain extent.

	2013	2012	2013	2012	2013	2012
	NL	NL	D	D	Total	Total
Grid losses						
110/150 KV						
Grid losses (GWh)	380	371	N/A	N/A	380	371
Transported GWh	84,838	85,123	N/A	N/A	84,838	85,123
% grid losses of transported GWh	0.45%	0.44%	N/A	N/A	0.45%	0.44%
220/380 KV						
Grid losses (GWh)	451	452	1,713	1,659	2,164	2,111
Transported GWh	67,540	62,104	131,416	136,920	198,956	199,024
% grid losses of transported GWh	0.67%	0.73%	1.30%	1.21%	1.09%	1.06%
Total grid losses (GWh)	831	823	1,713	1,659	2,544	2,482

Our main objective is to realise the transport of electricity in an efficient, reliable and sustainable manner. Avoiding, limiting or addressing any negative side effects, where possible, is one of the priorities for TenneT's management.

Grid losses

Grid losses occur during the transport of electricity and are measured by taking the difference between the amount of electricity fed into the system and the electricity coming out of the grid.

Transporting electricity over long distances requires an (extra-) high-voltage. Electricity delivered to the homes of consumers of electricity is 230 V. Every step in changing the voltage results in a loss of electricity. Transporting over distances also results in some loss of electricity. The costs of these grid losses are incorporated into the tariffs charged to consumers and businesses as small grid losses are an inevitable element of the transport costs.

To compensate for the impact on our carbon footprint, all grid losses in the Netherlands in 2013 were purchased as green energy. In 2014, we aim to also compensate for the impact of TenneT Germany's grid losses, in close cooperation with the German regulator.

SF₆

In our effort to reduce our environmental impact, we strive towards lower emissions of sulphur hexafluoride (SF₆). SF₆ is used as an insulating gas in high-voltage switch gear. We have in the past years improved registration systems of leakages at Dutch substations. We monitor SF₆ emission of assets containing SF₆ by responding to alarms, performing inspections and registration of the emission. In case the SF₆ emission of an individual asset is outside the limits derived from its design, possible corrective measures are analysed. The suitable measure is prioritised within the maintenance or replacement programs based on emission severity.

	2013	2012	2013	2012	2013	2012
	NL	NL	D	D	Total	Total
SF ₆ leakages and environmental incidents						
SF ₆ leaked (kg)	467	653	616	577	1,083	1,230
SF ₆ in use (kg)	102,250	100,146	112,366	102,221	214,616	202,367
SF ₆ leaked (%)	0.46%	0.65%	0.55%	0.56%	0.50%	0.61%
Environmental incidents (#)	22	29	14	12	36	41

In the Netherlands, TenneT reports annually on SF₆ leakage to the Netherlands Association of Energy Network Operators. In Germany, TenneT reports on a yearly basis to a commission of the German industry association.

Oil leakages

TenneT uses oil at its high-voltage installations in order to insulate and cool transformers and to insulate certain types of cables. Oil leakages can contaminate the soil and groundwater and TenneT has a strict policy of repairing leaking oil cables and is implementing a system of tracer injection to detect smaller leakages and swiftly limit possible contamination.

TenneT has implemented a number of measures to prevent soil and groundwater contamination such as safer diesel tanks for the stand by generators and

oil separators. TenneT has also set up a soil management plan which we update yearly. In 2013, we executed a plan to improve the management of drip trays underneath the transformers.

In 2013, there were oil leakages from cables of 4.043 litres. The new high-voltage cables no longer use oil, but instead are insulated with plastic (crosslinked polyethylene, XLPE).

Our footprint

TenneT uses a number of metrics to define its footprint, such as grid losses, SF₆ emissions, the use of energy in installations and our own offices and travel by our employees. These metrics have been converted to CO₂ equivalents based on the Manual CO₂ Footprint Network Operators of the association of Energy Network Operators in the Netherlands.

	2013	2012	2013	2012	2013	2012	2013	2012
	NL	NL	D	D	Total	Total	As percentage	As percentage
Carbon footprint (in tonnes CO ₂)								
Grid losses	381,567	377,941	786,267	761,481	1,167,834	1,139,422	93.36%	93.23%
SF ₆ leaked	11,213	14,784	15,672	13,848	26,885	28,632	2.15%	2.34%
Energy consumption	10,527	9,885	34,143	34,089	44,670	43,974	3.57%	3.60%
Air travel	1,324	816	444	410	1,768	1,226	0.14%	0.10%
Car travel	2,290	2,167	2,343	2,164	4,633	4,331	0.37%	0.35%
Car travel (lease)	2,281	2,000	2,777	2,564	5,058	4,564	0.40%	0.37%
Train travel	12	N/A	93	86	105	86	0.01%	0.01%
Total	409,214	407,593	841,739	814,642	1,250,953	1,222,235	100%	100%

Conversion factors	Factor
Grid losses (GWh)	459.0
SF ₆ leaked (kg)	24.0
Energy consumption	
- Electricity (Kwh)	0.00046
- Gas (m ³)	0.00180
Air travel (km)	0.00019
Car travel (km)	0.00019
Car travel (Lease cars, litres)	0.00212
Train travel (km)	0.00004

An environmentally friendly place to work

Moving into our new headquarters is a good example of how we are learning to reduce our own impact on the environment by cutting our CO₂ footprint. We have worked hard on this in the past years and continue to take this into account in everything we do at TenneT.

The construction at the green park of Mariëndaal, where the new head office of TenneT is situated, used approximately 3,000 square meters of trees. To offset this impact, we planted around 5,500 square meters of new trees. As long-term tenants, we were in the position to exert substantial influence on how the new building was constructed. For instance, no glue was used in the building process, carpets and walls can be recycled and it is our policy to replace all office equipment by sustainably certified products when they are up for replacement. We also introduced the latest communication technology for our employees, which means less travel will be necessary. Mariëndaal Centre of Excellence, or MCE, currently ranks among the top 25 of the most sustainable buildings in the Netherlands.

TenneT plans to invest in the former head office building to improve its sustainability and is in advanced negotiations on a long-term lease agreement to rent out this building.

Employees

Our ambition is to be one of the top employers and best places to work in the European energy sector. The engagement and commitment of our people are key to our continued success and growth. We reviewed our entire approach to our people and organisation in 2013 to ensure we are doing all we can to maintain high levels of employee satisfaction and a high-quality workforce.

We carry out an employee insight survey every two years, measuring engagement and satisfaction across a range of factors. The latest survey was in 2013, conducted in partnership with the specialist research firm Towers Watson and benchmarking our results against other companies in the energy sector and other industries. This resulted in positive feedback and high

levels of response, with 77% of all TenneT employees taking part; well above the industry average of around 70%. In Germany, the response level was an overwhelming 90%. Most employees took the time to give detailed and thoughtful feedback on how the organisation could improve – another sign that our staff is very engaged.

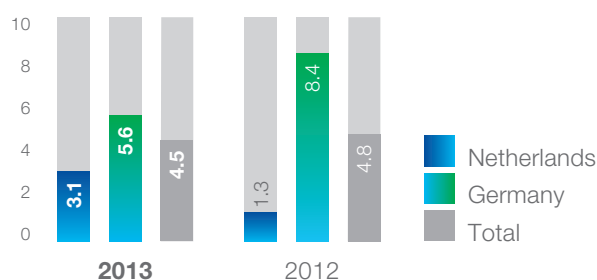
	2013	2012	2013	2012	2013	2012
Employees	NL	NL	D	D	Total	Total
Employee satisfaction	79%	N/A	85%	N/A	82%	N/A
Number of employees (headcount), excluding external staff	1,321	1,300	1,275	1,073	2,596	2,373
Number of external employees (headcount)	505	420	18	13	523	433
Collective labour contracts (%)	89%	90%	78%	77%	84%	84%
Function contracts (%)	11%	10%	13%	14%	12%	12%
Other contracts (%)	0%	0%	8%	9%	4%	5%
% of male employees	77%	77%	78%	78%	78%	78%
% of female employees	23%	23%	22%	22%	22%	22%

Safety and Health

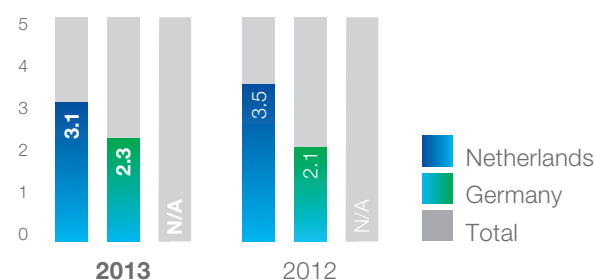
We view safety in the broadest possible sense: for our employees and external personnel at work and also for the many other stakeholders who benefit from and are

affected by our work. We also view safety through the lens of the environment, aiming to minimise our impact at all times.

Lost Time Injury Frequency



Absentee rate (%)



We embed safety in our culture, from the top down and also bottom up. We took important steps towards this in 2013, and worked with independent research organisation TNO to gather the views of our employees and leaders on the topic of safety in the Employee Survey and the Safety Culture Survey.

Our aim is to equal the oil and gas industry in terms of safety standards – a deliberately challenging goal that still requires considerable progress to achieve. To this end, we intensified our focus on safety in the past year and for each and every employee in the Netherlands and Germany, we made it mandatory to attend a Safety Awareness Workshop.

The workshops in the Netherlands have a particular focus on individual practices. All staff and managers are expected to attend the workshops, and to date 631 employees, or approximately 43% of the total, have done so. After completing the programme also for other employees, workshops will be held by our own facilitators for the benefit of new staff. The workshops in Germany were originally intended for managers and team leaders only. They seek to pass on the skills necessary to achieve maximum visibility within their areas of responsibility in the organisation, including construction. The attendance of the Safety Walks and Safety in Dialogue training was approximately 85%. In late 2013, further workshops for operational Grid Service staff were added for which the attendance in 2013 was 20% and that will be increased during 2014. Feedback on the workshops has been very positive, both in the Netherlands and Germany.

In terms of tracking our safety record, Lost Time Injury Frequency (LTIF) is an important metric for us. In 2013, the group LTIF decreased, despite more construction and offshore projects – both of which carry a higher risk profile. We managed to reduce our relatively high LTIF in Germany by working more closely together with the contractors. The Dutch LTIF increased, but there is no specific reason for this. In all, 90% of the safety incidents, which range from first aid cases to more serious incidents, related to male employees, while 10% related

to female staff. Most injuries were wounds and superficial injuries (cuts, bruises), sprains and strains. No fatalities occurred in 2013.

An engaged and energised workforce works best when healthy and active, so, where possible, we try to help employees by contributing to a healthy and sporty lifestyle, offering periodical medical reviews and supporting efforts to stop smoking. Our sports programme Committed Power – available to all internal and external employees (and partners) in the Netherlands and Germany – is a very good example of this. It is more than just a way of staying healthy – it is also good for informal networking with colleagues and stimulating company-wide workforce integration.

Sustainable Engagement

We call the intensity and durability of our employees' connection to TenneT and its values 'Sustainable Engagement'. It is a good indicator of the willingness and ability of our employees to go the extra mile for our organisation, and their collective desire for success.

Our sustainable engagement score in 2013 was 79%, well above average in the energy & utilities sector and close to the best performing international companies in the Towers Watson benchmark, with scores of around 85% or higher.

Sustainable engagement (%)

2013 NL	76
2013 D	82
2013 Total	79

Sustainable employee engagement was measured according to the following factors: employees' engagement with TenneT's goals; their understanding of our strategies and the extent to which they share TenneT's core values of integrity and quality – which includes safety in this context. TenneT also measures how our employees' understanding of our goals translates into effectiveness in our work. It is important that employees remain energised to do their work –

that they are healthy and that the workload and the type of work are challenging as well as suited to their abilities.

To enable our employees to perform to the best of their abilities during their entire and ever-longer working careers, we offer our people health and vitality programmes in addition to our Human Resource Development Programme and Strategic Personnel Planning. We also have a mobility office to support

employees in finding a new job inside or outside TenneT, if necessary.

Our view is that we can only get the very best out of our people and our organisation by empowering them to be sustainably engaged. We help our leaders and employees by guiding, advising, supporting and monitoring their performance and development, often facilitated with structured programmes.

Committed Power

	2013	2012	2013	2012	2013	2012
	NL	NL	D	D	Total	Total
Number of participants						
Biking	102	79	39	45	141	124
Mountainbiking	31	-	29	-	60	-
Nordic walking	103	68	64	61	167	129
Running	199	132	118	85	317	217
Winter activities	-	67	-	16	-	83
Total	435	346	250	207	685	553

Fostering Leadership and Talent

Attracting, developing and retaining top talent is key to our success. To ensure this happens systematically throughout our organisation, we have several tailored initiatives. This includes our Human Resource Development Programme and Strategic Personnel

Planning, while we help our leaders excel and inspire others through our Management Development programme. We also aim to foster a stimulating working climate with our Performance Management Programme and Flex@TenneT scheme.

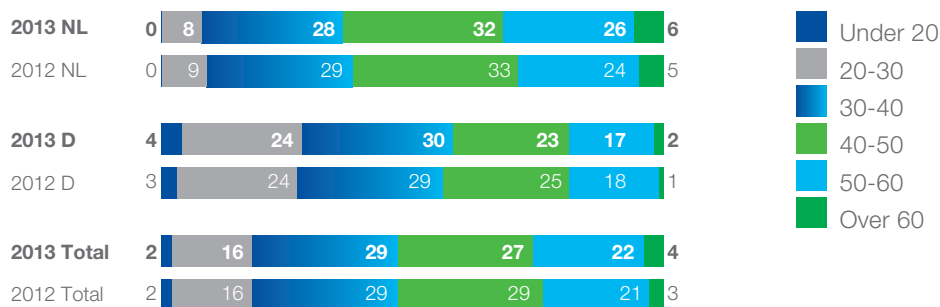
Education costs

	2013	2012	2013	2012	2013	2012
	NL	NL	D	D	Total	Total
Education costs per employee (EUR)	1,650	1,398	1,875	1,670	1,761	1,521

Leadership plays a crucial role in employee engagement, making it critical that senior management is not only guided by our strategic vision but also leads by example. During 2013 we worked with our leaders on succession management and leadership development, tailoring development programmes in a structured approach. We also worked hard on our succession management – filling two board positions internally – and focused

on strategic personnel planning, particularly for critical functions. As an organisation with a duty to provide uninterrupted electricity under all circumstances, we are very aware that there is no room for error. In this, we have identified project management and utility strategy as two critical functions and we are working with internal programmes to develop this.

Age spread of workforce (% by age group)



To attract the best talent, we offer students in the Netherlands and Germany work experience, apprenticeships and trainee programmes. We offer the Power Minor programme in the Netherlands and we liaise closely with a number of universities, including leading

technological universities of Delft, Twente and Eindhoven. In the Netherlands, 'Young TenneT' organises activities for a growing group of 275 members and 100 alumni. These are aimed at furthering their development, sharing knowledge and networking internally and externally.

	2013	2012	2013	2012	2013	2012
	NL	NL	D	D	Total	Total
Composition of in- and outflow						
Inflow of male employees	9%	5%	17%	13%	13%	9%
Inflow of female employees	11%	8%	19%	12%	15%	10%
Total inflow of employees	10%	6%	17%	12%	14%	9%
Outflow of male employees	2%	5%	2%	4%	2%	5%
Outflow of female employees	4%	8%	5%	0%	5%	4%
Total outflow of employees	3%	6%	3%	4%	3%	5%

In order to minimise shortfalls of personnel capacity on large infrastructural projects, we carefully monitor and try to prevent talent leaving the company. We either try to absorb these employees elsewhere in the organisation or ensure we have sufficient talent rising up through the organisation.

Since we have a demanding investment portfolio and growing workload, particularly in Germany, we plan to grow by more than 200 FTEs in 2014. In the Netherlands, we will slightly contract after a number of years of strong growth.

	2013	2012	2013	2012
	NL	NL	D	D
Composition of full- and part-time employees				
Male part-time employees	8%	7%	1%	1%
Female part-time employees	63%	65%	15%	16%

In order to allow the organisation to be as efficient and effective as possible we work with a flexible shell model, relying on a core team of permanent employees for base-load work and on external staff or outsourcing to contractors for certain additional duties and peak-load work. Also, our new head office adds to the flexibility of our organisation – a flexible and paperless workplace which easily absorbs changing housing needs of departments or project teams. The new building brings more freedom for individual employees to choose the working place that suits them for the activities of that day. As managers and employees see each other less often than in the classical office setting, cooperation is based

on result agreements and feedback and working together is done digitally. In this stimulating climate there will be plenty of room for personal growth and delivering an excellent performance for TenneT and its stakeholders.

In engaging with our employees we make use of our employee survey to identify key issues. We also have frequent meetings with the works councils, at which occasions employee issues are raised and discussed. An example of an issue that has been discussed, both in Germany and in the Netherlands, is the pre-employment screening of new employees.

Staying in touch



Connected

At TenneT, we are not only the linking pin between electricity producers and users; we are also connecting many other stakeholders in a concerted effort to pursue the development of an integrated European energy market. TenneT seeks to engage with its customers, shareholders and employees, and with society as a whole. Dialogue with stakeholders is important in the construction of new connections or substations. We challenge ourselves to communicate in a transparent manner, with respect and with appreciation for the interests of other parties – even when these do not match our own. We constantly maintain, upgrade and expand the electricity supply system in order to ensure it will endure for the future. Although this is necessary from a national and international perspective, our work is regularly conducted on privately-owned property. With this in mind, and in order to successfully complete our work, we try to work closely with all involved parties, taking into account all stakeholder interests.





Innovation

TenneT operates in a fast-changing environment where the security of supply is a critical factor. Innovation is an important means of developing markets and technology, necessary to address the many changes. For TenneT, innovation is about successfully exploiting new ideas to create value. Our approach to innovation aims to benefit our stakeholders and focuses on meeting our strategic goals, in accordance with our mission to provide high security of supply in the markets we serve and to pursue the development of an integrated and sustainable North West European electricity market.

Innovation at TenneT

TenneT's innovation process starts from the bottom-up, with ideas generated by employees and external stakeholders. Top-down, the innovation process is driven by TenneT's mission. Our Innovation Advisory Board fulfils an important role in evaluating TenneT's innovation programmes and Research & Development policy in an international context. For this reason, it is crucial that the Innovation Advisory Board has an external perspective. It therefore comprises members from the academic world, research centres and other TSOs, including Prof. Ronnie Belmans (EnergyVille / KU Leuven, Belgium), Prof. Albert Moser (RWTH Aachen University, Germany), Prof. Margot Weijnen (Delft University of Technology, the Netherlands) and Peter Jørgensen (Energinet.dk, Denmark).

In 2013, the focus of TenneT's innovation programmes was on initiating and implementing several large-scale European innovation projects in collaboration with other TSOs participating in ENTSO-E. These affect multiple internal departments, and therefore, cooperation and coordination are critical factors for success. Bringing together the right people will continue to be an important element in facilitating innovation. While doing this, the security of supply must be guaranteed at all times.

Looking ahead, it will be challenging for TSOs to keep the system up and running while the external environment is

changing rapidly. The strong growth of concentrated large-scale and dispersed small-scale renewable energy sources (RES), and the accelerated phase-out of nuclear power, will lead to new challenges for the operation of the grid and security of supply.

TenneT is always seeking new solutions to address its current and future challenges. This requires innovation for both sustainable market design and transmission system development.

Sustainable market design

While the need for back-up and reserve capacity for intermittent generation is emerging, it is not part of the current market design. The increasing integration of renewable energy sources – having negligible marginal costs, priority feed-in and variable generation – affects merit order and price determination, portfolio and system balancing, gradients and price volatility, and transfer capacities. As such, renewable energy sources do not fit into the existing market design. The contribution of market parties to security of supply in the operating planning phase is not adequately incentivised.

Our innovation effort, made in cooperation with our stakeholders, is focused on developing a market model and market-based solutions which incentivise investment and innovation in the market, thereby ensuring the highest possible efficiency.

On behalf of TenneT, E-Bridge and UMS-Group (Netherlands) worked with Professor Wolak of Stanford University, to carry out an innovative study on sustainable design of the electricity market. Based on this study, TenneT concludes that the energy only market (EOM) should remain the central market instrument, regulating short-term and cost-efficient deployment of renewable generation. It should also regulate the flexibilities from conventional production units, large-scale storage (such as pumped hydro, Compressed Air Energy Storage) and others enabled by distributed smart grids from Demand Side Response, battery storage, fly-wheel, H₂-cars, electrical cars, and micro CHP.

The focus of our innovation is on developing an energy balancing pricing system into a smart system which incentivises market parties to behave in a way conducive to the system and which swiftly penalises balancing deviations. In order to realise an integrated European energy market it is important to facilitate cross-border trading. Moreover, the large-scale integration of variable renewable energy generation increases the need for cross-border balancing. Another innovation topic is that of ancillary services to renewable energy sources, where support mechanisms of renewable energies advance towards a system where renewable energy sources gradually take over all market risk, provide ancillary services to the system and are treated in the same way as other market participants.

TSO Security Cooperation (TSC)

Given the rapid development of renewable energy sources feeding into the grid, the German Energiewende and the energy roadmap leading towards Europe 20/20/20, the challenges to a secure transmission operation are growing. The responsible TSOs within the transnational TSO Security Cooperation (TSC) launched a joint office in Munich on 1 July 2013. This joint office accelerates the coordination among the TSOs in ten European countries with more than 203 million citizens (Austria, Croatia, Czech Republic, Denmark, Germany, Hungary, the Netherlands, Poland, Switzerland and Slovenia) and contributes to security of the system across the European electricity grid.

Besides the Day Ahead Congestion Forecast (DA CF), a 24/7 rolling Intraday Congestion Forecast (IDCF) was also introduced. Future new developments are centred on topics such as the use of common tools and processes for outage scheduling security assessment and coordinated flow-based (intraday) capacity calculation.

380 kV cable research programme

In the first half of 2013, the Randstad Zuidring was put into service. This new 380 kV connection in the Netherlands between Wateringen and Bleiswijk runs underground for 10 km. Another 10 km of 380 kV cables will be applied in the Randstad Noordring. Creating 380 kV cables with high transmission capacities in a heavily loaded meshed network, is a unique application in the world. Therefore, an eight-year international research programme was initiated in 2009, in order to gain more knowledge about the (electrical) behaviour of 380 kV cables in so-called line-cable-line constructions.

The research programme is threefold. Firstly, several PhD and MSc students are looking into the steady state, transient and resonance behaviour of the cable under certain conditions, as well as the reliability and availability of underground cables, compared to overhead line connections. This part mainly consists of developing models to predict the behaviour of the cable. It is executed by the Delft and Eindhoven Universities of Technology. Secondly, a unique condition monitoring system was installed in the Zuidring, following the cable performance in operation. The data that becomes available from this system will be used to validate scientific models in the future, and to gain additional knowledge. The final part of the research programme is performed with international power grid companies to speed up the learning curve on practical issues, including reduction of repair times and managing quality assurance. The programme should clarify whether the application of 380 kV cables in the heavily loaded meshed electricity grid can be extended further, and if so under which conditions.

Control and protection of inverter-based systems

The integration of large amounts of renewable generation with power electronic interfaces and the addition of High-Voltage/Direct-Current (HVDC) links into the power system will necessitate a review of the operation and the control of transmission networks. The challenge is to maximise the volume of renewable generation in-feed while keeping the transmission system stable. However, the question is how the power system will behave when the transmission network is fed by large amounts of inverter-based generation, and to identify what must be done to allow this equipment to be safely integrated into the system. Increasingly, components in the European power system are based on power electronics. This equipment feeds harmonic current into the system and in some cases could lead to unstable behaviour and impair the reliability of the power system. Entire areas might potentially be fed by inverter-based generation, such as by HVDC offshore energy. Therefore, fault detection, power system stability and control, de-rating of transformers due to higher harmonics and harmonic distortion must all be studied. Appropriate tools and methods for building models must be identified to this end. Current control and protection schemes must be reviewed and may need to be redefined to allow stable, reliable and economic operation of the network.

Offshore Voltage Source Converter High Voltage Direct Current technology

Offshore wind turbine parks close to the coast are connected by HVAC submarine power cables to the main onshore grid. The maximum transferrable power as a function of the transmission distance of HVAC cables is limited due to the fact that long high-voltage cables produce large amounts of capacitive reactive power. Transmission capability decreases sharply as a function of distance given reactive power production.

In order to reduce transmission losses and increase the transmission power capacity across longer distances, TenneT connects offshore wind turbine parks to high voltage direct current (HVDC) cables and modern voltage source converters (VSC).

Compared to the traditional current source converter (CSC) technology, the VSC technology provides not just turn-on but also turn-off capabilities and can independently control active and reactive power.

Dolwin2 will be world's largest VSC HVDC converter with a capacity of 900 MW. Total DC cable length is 135 km. The DC cables are rated at 900 MW, the highest-ever rating for a DC cable with extruded polymer insulation. The HelWin1 platform utilizes a new self-installing jack-up structure.

Onshore HVDC project SÜED.LINK

The forecast large increase in electricity generation from renewable sources in Northern Germany and the shutdown of nuclear power plants are expected to lead to a situation where the transportation capacity of the existing 380 kV grid will not be sufficient to carry the expected transportation volume over long distances. Long-distance bulk power transmission generates increasing losses. To reduce energy losses during transmission over long distances, two HVDC power lines of up to 500 kV, between the northern and southern parts of Germany's power supply grid, are envisaged to be realised.

An innovative voltage source control HVDC technology is to be used, in combination with unique high transmission powers of 2 GW. As a result, the project is a world first regarding several technological details (i.e. capacity in combination with VSC technology, the total length of anticipated onshore cable share and several HVDC transmission lines on one tower).

Financial results

In EUR million based on underlying financial information	2013	2012	Change	Change in %
Revenue	2,243	1,769	474	26.8%
EBITDA	875	608	267	43.9%
EBIT	620	363	257	70.8%
Profit for the year	357	180	177	98.3%
Total assets	11,563	10,284	1,279	12.4%
Liabilities	8,970	8,063	907	11.2%
Equity	2,593	2,221	372	16.7%
Investments	1,885	1,932	-47	-2.4%
Net interest bearing debt, adjusted	3,147	2,694	453	16.8%
ROIC	11.6%	8.2%	3.4%	41.5%
FFO / Net debt	18.6%	15.4%	3.2%	20.8%

Use of underlying financial information

The key underlying financial information used in this report involves the recognition of regulatory receivables and payables in connection with TenneT's regulated activities. IFRS reported figures, as presented in the consolidated financial statements, do not contain these. Regulatory receivables and payables include amounts which – based on the current regulatory framework – can be recouped or are required to be returned through future grid tariffs. TenneT believes that underlying financial information better represents our actual business and financial performance, and is therefore used for management reporting and analysis, as well as for internal decision-making and financial planning.

The accounting principles applied for underlying financial information are further set out in note 3.2 of the consolidated financial statements. Furthermore, note 5.3 to the consolidated financial statements compares the underlying financial information to the reported IFRS figures.

Investments are the main driver for revenue increase

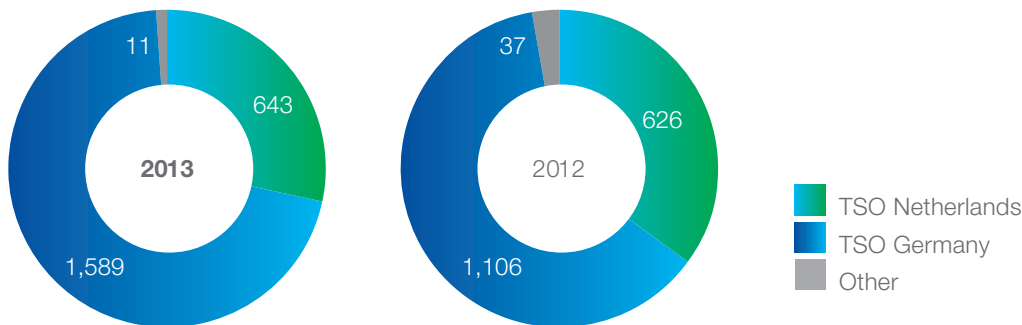
Total underlying revenue increased by 27% to EUR 2,243 million in 2013 (2012: EUR 1,769 million). TenneT's growing asset base and investments in the year have been the main driver for this increase and are expected to lead to further revenue growth in the coming years.

Extraordinary expansion investments ('*uitbreidings-investeringen*') in the Netherlands resulted in EUR 16 million of additional revenue in 2013.

Other factors contributing to the revenue increase in the Netherlands were price indexation and other smaller regulatory effects (total effect of EUR 11 million).

In Germany, the level of investments in offshore and onshore projects has direct impact on regulatory income in the same year, based on the Investment Measures ('IMA') regulatory compensation system. In 2013, this resulted in an increase of revenues of EUR 151 million. In addition, revenue was impacted by a change in the reimbursement of offshore expenses.

Revenue (In EUR million)



In 2013 TenneT adopted the specific reimbursement mechanism for offshore investment measures as presented by the BNetzA. This regulatory mechanism was adopted retrospectively from 2007 onwards, causing a one-off increase of revenues of EUR 166 million related to the years 2007-2012 and EUR 123 million for 2013.

While causing regulatory outperformance during the construction phase, it is uncertain how actual offshore costs will develop in future years and there is a risk that the reimbursement will not be sufficient to cover all expenses after commissioning.

71% increase in EBIT

Mainly due to the higher investments and the change in the adopted offshore reimbursement mechanism in Germany, underlying EBIT increased by 71% to EUR 620 million in 2013 (2012: EUR 363 million). Other factors having a positive impact on underlying EBIT were increased profitability of the BritNed cable (EUR 14 million, representing TenneT's 50% share in profit) and a one-off gain on the sale of the APX gas activities (EUR 25 million).

Counterbalancing the upward effects on underlying EBIT, were higher depreciation and personnel expenses (EUR 19 million and EUR 24 million respectively) and additions to provisions (EUR 233 million). Depreciation increased as a result of the higher asset base in use.

The growth of activities, mainly offshore projects in Germany, resulted in an expansion of the workforce and consequently higher personnel expenses. The increase of provisions relates primarily to legal claims and risks associated with TenneT's offshore activities in Germany; this provision was increased based on our updated assessment of liability risks due to delays and interruptions of grid connections to offshore wind farms.

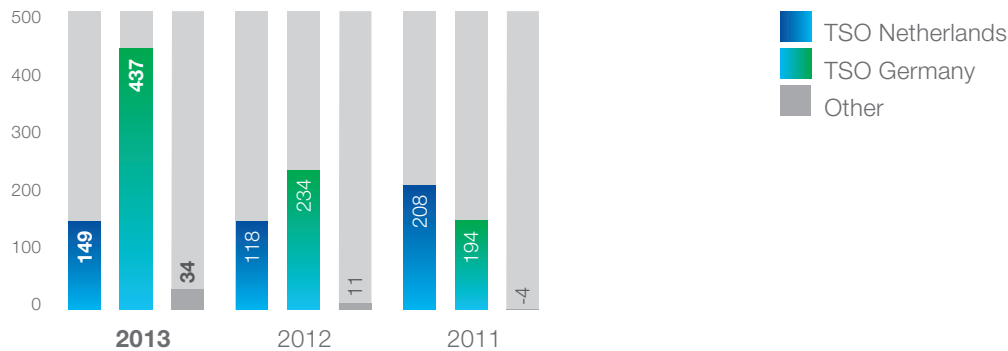
Financial position remains strong

Assets

Total assets as at 31 December 2013 increased by EUR 1,279 million to EUR 11,563 million (2012: EUR 10,284 million). The main drivers for this increase were the investments in tangible fixed assets (EUR 380 million in the Netherlands and EUR 1,504 million in Germany) and receivables from- and amounts to be invoiced to other German TSOs (EUR 109 million and EUR 115 million, respectively) mainly in relation to connecting offshore wind farms.

The majority of investments in 2013 relates to eleven offshore projects under construction in Germany (EUR 1,330 million). These were started before 2013, except for DoWin3, which began in 2013. Investment in this project amounted to EUR 354 million during the year. In the Netherlands, the southern part of the Randstad 380kV project was completed, with a total investment value of EUR 179 million in 2013.

EBIT (in EUR million)



The increase in assets was partly offset by the annual depreciation charge (EUR 255 million) and a decrease in EEG-related receivables in Germany (EUR 479 million). A higher EEG surcharge for 2013 led to a higher cash inflow during the year and consequently a decrease in EEG receivables.

All electricity feed-in from renewables power plants in Germany is sold to the energy market, either by the renewables generators or by the four TSOs. For the volumes the TSOs sell to the market, fixed feed-in tariffs are paid to the generators. For the volumes the generators or their respective contractors sell to the market, the TSO pays a bonus (market premium) to reduce the risk of losses for renewables generators. The difference between the four TSOs' revenues from renewable energy sold on the one hand and the expenses for the feed-in tariffs and bonus payments on the other is forecast every year and allocated to the so-called EEG levy ("EEG-Umlage") by the TSOs. This levy is then billed to all suppliers and ultimately paid by electricity consumers with certain exemptions. If expenses exceed revenues, the difference is brought forward to next year's levy calculation. EEG revenues and expenses are not included in TenneT's statement of income, but are pass-through items on the balance sheet. The year-on-year fluctuations in EEG revenues and expenses significantly impact TenneT's working capital and cash flows.

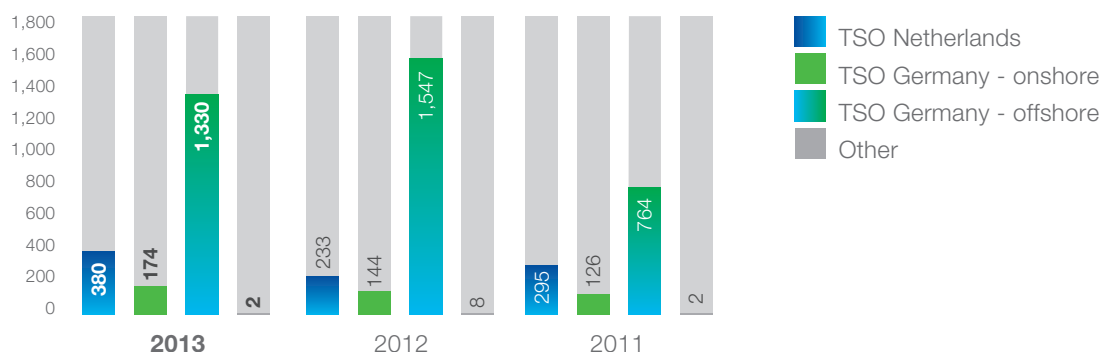
Liabilities

The main items explaining the higher level of total liabilities (EUR 8,970 million this year versus EUR 8,063 million at 31 December 2012), were the increase of long-term borrowings (EUR 477 million), deferred auction income (EUR 220 million), EEG payables (EUR 391 million) and other payables (EUR 455 million).

The increase in long-term borrowings relates primarily to the October 2013 issue of a new EUR 500 million bond under the Euro Medium Term Note programme. This bond matures in 2020 and bears a 2.125% interest coupon. The funds obtained from the bond issue were used to refinance a portion of the Group's short-term debt.

The higher level of capacity transported on TenneT's cross-border interconnection lines resulted in an increase of auction receipts in 2013. This was mainly from cross-border transactions between the Netherlands, Belgium and Germany. Income from capacity auctions is not at TenneT's free disposal, but is to be used for investments in cross-border interconnections or for future tariff reductions. Therefore this is treated as deferred income in underlying financial information.

Investments (in EUR million)



In 2013 the EEG surcharge was increased to compensate for the shortfall in the previous year. Following the seasonal pattern of renewable energy generation, EEG income exceeded the related EEG costs during the fourth quarter of 2013. This surplus resulted in an increase of the EEG payables compared to 2012.

Finally, the increase in other payables was mainly due to the newly introduced offshore liability levy received from TenneT's own grid customers as well as from other German TSO's for compensation payments to be made to offshore wind farms for the delay or interruption of grid connections. This reflects the unused compensation. For TenneT the compensation is solely a pass-through item and as such only affects the statement of financial position without any effect on the statement of income, as long as TenneT is not held liable for the delay or interruption.

Equity

In April 2013 TenneT and Mitsubishi Corporation ("MC") closed their second partnership with respect to two German offshore high-voltage cable projects, HelWin2 and DolWin2, in which a subsidiary of MC acquired a 49% voting interest for a maximum equity investment of EUR 336 million. Together with the 49% voting interest in BorWin1 and BorWin2 that was sold to MC in December 2012, the total equity commitment of MC amounts to EUR 576 million. Total capital contributions made by MC during 2013 were EUR 92 million.

Besides the transactions with MC, total equity as at 31 December 2013 increased with this year's total comprehensive income. The increases were partly offset by dividend distributions to the shareholder (EUR 59 million) and interest paid to holders of hybrid securities (EUR 25 million, net of tax).

Cash significantly impacted by German EEG

Cash flows from operating activities showed a significant increase in 2013 (net cash inflow of EUR 2,283 million) compared to 2012 (net cash flow outflow of EUR -457 million), mainly because of higher EEG cash inflows during 2013 versus EEG related cash outflows in 2012. These were the result of an increase in the EEG surcharge in 2013 compared to 2012. Furthermore, the increase of revenues in 2013 compared to 2012 contributed positively to the operating cash flow.

In EUR million	2013	2012	Change
Net cash flows from operating activities, excluding EEG working capital movement	1,413	351	1,062
EEG working capital movement	870	-808	1,678
Net cash flows from operating activities	2,283	-457	2,740
Net cash flows from investing activities	-1,768	-1,612	-156
Net cash flows from financing activities	-430	1,245	-1,675
Net change in cash and cash equivalents	85	-824	909

These year-to-year fluctuations in EEG cash flows have an important effect on TenneT's own operating cash flows, representing working capital movements. Differences in any year between estimated and realised EEG cash flows are settled in the following year via an adjusted surcharge to grid customers. Based on this settlement mechanism, the EEG cash flows in 2013 were a net inflow to reimburse the EEG deficit from 2012.

The additional EEG cash inflows in 2013 were used to redeem the short-term borrowings that were obtained in 2012 to finance the EEG deficit in that year, meaning a reduction of the net cash flow from financing activities in 2013 compared to 2012. Nevertheless this effect on total net cash flows from financing activities is somewhat lowered, resulting from the EUR 500 million bonds issue in October 2013 and the funds received from the transactions with MC.

The net cash flows from investing activities mainly relate to capital expenditures. The majority of these were for German offshore projects and, to a smaller extent, investments in the Dutch grid and in German onshore projects.

Funding further strengthened through active financing strategy

Funding strategy

TenneT's financing objectives are to safeguard the group's ability to meet its short- and long-term obligations while providing an adequate return on capital for its shareholder and investors. This translates into a credit rating of at least 'A-', enabling TenneT to issue debt at interest rates which are in line with the cost of debt compensation provided for in the Dutch and German regulatory regimes.

On 31 December 2013, TenneT Holding B.V. had the following senior unsecured credit ratings from Standard & Poor's and Moody's, which remained unchanged compared to 2012 and were confirmed by these rating agencies on 28 March 2013 and 29 May 2013, respectively.

Credit rating as of 31 December 2013 and 2012	Long-term rating	Short-term rating
Standard & Poor's	A- (stable outlook)	A-2
Moody's	A3 (stable outlook)	P-2

Net interest-bearing debt position

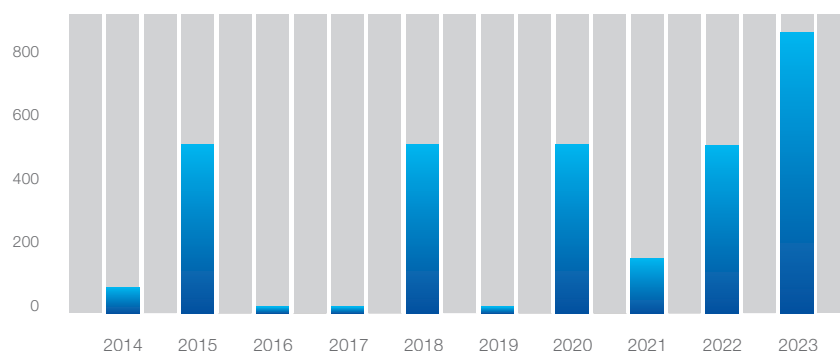
On 31 December 2013, TenneT's adjusted net interest-bearing debt position amounted to EUR 3,147 million (net of EEG balances and cash). TenneT aims not to maintain any cash balances on a long-term basis, but to rely on committed undrawn bank credit facilities to support its 12-month forward looking liquidity requirement.

In July 2013, TenneT updated its prospectus under the Euro Medium Term Note (EMTN) programme, increasing the programme size from EUR 5 billion to EUR 8 billion. A supplement to this prospectus was issued in October 2013.

In November 2013, TenneT issued EUR 500 million senior unsecured bonds under the EMTN programme. The issue comprised a single tranche of EUR 500 million with a maturity of seven years. There was significant investor interest for the transaction, which was approximately three times oversubscribed. The bonds are listed on the Amsterdam Stock Exchange and carry an interest coupon of 2.125%.

Furthermore, TenneT signed EUR 150 million and EUR 500 million long-term committed loan agreements with the European Investment Bank (EIB) in July and December 2013, respectively. On 31 December 2013, these EIB facilities were undrawn.

Annual redemption of interest-bearing debt (In EUR million)



Short-term debt facilities

On 31 December 2013, TenneT had a EUR 1,125 million committed revolving credit facility at its disposal, expiring August 2018, as well as a EUR 500 million revolving credit facility, expiring November 2015. No amounts were outstanding under these facilities as of 31 December 2013. In addition, on 31 December 2013, TenneT had EUR 545 million of uncommitted credit lines and a EUR 1,000 million commercial paper programme available. As of 31 December 2013, no amounts of commercial paper were issued and no uncommitted credit lines were drawn. Furthermore TenneT had issued EUR 50 million of short-term (money market) loans as of 31 December 2013.

FFO/Net debt

TenneT's internal policy is to maintain the FFO/Net debt ratio at a minimum of 8%, in line with the requirements of Standard & Poor's and Moody's for the A-/A3 rating category respectively. Before 2013 the FFO/Net debt ratio slightly reduced due to the substantial investment programme, which caused an increase of net debt during the construction phase whereas for certain investments there is a time lag in receiving regulatory compensation. In 2013 the investments and the further increase of profit contributed to a higher FFO and consequently the FFO/Net debt ratio increased in 2013 compared to 2012.

Outlook

TenneT's large investment programme continues to have a significant impact on the company's operating and financial performance. In the coming years, there will be an increasing number of large projects in construction both offshore and onshore in Germany and the Netherlands. The realisation of these projects and increase in our operations is expected to be challenging but manageable.

In the Netherlands, the regulator's decision on the revenue cap for the years 2014-2016 will lead to a reduction of permitted revenues and hence higher pressure on our financial performance in the coming years. TenneT has lodged an appeal against this decision, as we believe the lower permitted returns do not sufficiently reflect the regulatory and investment risks which TenneT is facing. Also, we have discussions with the Ministry of Economic Affairs about a number of proposed changes to the regulatory framework, particularly the elimination of the regulatory time lag for the reimbursement of investments. Besides our efforts to manage the effects of regulation, we have a strong focus on the efficiency of our operations to ensure we meet regulatory targets and maintain reasonable returns.

The ongoing growth of our German activities continues to draw significant management attention. There is a high work load on our offshore projects, ensuring these

are completed within budget and commissioned without delays. Many of these will become operational in the coming years, which leads to new challenges such as attracting qualified staff for operating and maintaining the offshore grids. Also the onshore business in Germany is growing substantially, with several large projects in preparation. We closely monitor the efficiency and risks related to our projects, and have an open and active dialogue with the German regulator to address new developments as they arise.

TenneT expects its ten-year investment programme to amount to EUR 16 billion, of which EUR 5 billion is forecasted for the Netherlands and EUR 11 billion for Germany. This is based on our latest estimates. The financing of investments is expected to be realised primarily through additional debt issuances, and equity, if and when needed to preserve our credit rating.

Corporate Governance

TenneT firmly believes in transparency and close co-operation with its shareholder, the Dutch State, and therefore decided to voluntarily comply with the Dutch Corporate Governance Code. This provides TenneT and its subsidiaries with clear operating guidelines.

Corporate Governance structure

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

Executive Board

The Executive Board of TenneT Holding B.V. has four statutory directors (as stipulated in the company's articles of association) and – from 1 January 2014 – two non-statutory directors. TenneT Holding B.V.'s members of the Executive Board have joint authority to represent the company. Each board member also holds limited individual power of attorney.

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

Supervisory Board

The Supervisory Board oversees the general policy and strategy of TenneT and carries out its duties in the interests of the company and all relevant stakeholders, while taking due account of the aspects of corporate social responsibility that are relevant to TenneT. The Supervisory Board operates at the level of TenneT

Holding B.V. Following an amendment of the Electricity Act, TenneT is subject to a mitigated statutory two-tier regime ('structuurregime').

The Supervisory Board has created a preferred profile of its composition which takes into account the nature of the company as well as the required expertise and background of Supervisory Board members.

The Supervisory Board aims to achieve diversity in its composition. The Supervisory Board currently consists of five members and has decided to extend to 6 members during 2014. Individual members may not serve more than three terms of four years. The members step down in accordance with a predetermined resignation rota.

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

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

The Remuneration and Appointments Committee is tasked with the company's remuneration policy and the remuneration of individual board members.

The Remuneration and Appointments Committee also establishes criteria for the appointment of new board members and supervises the recruitment process.

The Strategic Investments Committee prepares a review for the Supervisory Board of investment proposals submitted by the Executive Board; the committee assesses whether such proposals are compatible with the company's economic, financial and technical objectives as well as the risk profile and the stakeholders impact. Also, the Strategic Investments Committee monitors progress on large projects.

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

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

General Meeting of Shareholders

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

External auditors

The General Meeting of Shareholders has the power to appoint external auditors to audit the annual financial statements prepared by the Executive Board. The external auditors report on their audit to the Supervisory Board and the Executive Board and present the findings of their audit in the combined independent auditor's

report and assurance report, Management Letter and Audit Results Report.

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

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

Deviations from the Corporate Governance Code

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

Executive Board

II. 1.10 to II. 1.11. Provisions regarding a takeover offer do not apply to TenneT because all shares are held by the Dutch State.

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

Supervisory Board

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

III.5. If the Supervisory Board consists of more than four members, the Corporate Governance Code stipulates that the Supervisory Board shall appoint from among its members an Audit Committee, a Remuneration

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 Executive Board will in principle step down temporarily from the Supervisory Board. On completion of the supervisory director's managerial duties, the Supervisory Board and the General Meeting of Shareholders will decide whether this director can rejoin the Supervisory Board. The duration of the director's managerial duties may be one of their considerations.

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

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

General Meeting of Shareholders

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

IV.1.1. Non-structure-regime company

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

IV.1.3. Public disclosure of a bid

IV.1.7. Registration date of voting rights

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

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

IV.3.7. Shareholder circular

IV.3.11. Protective mechanisms

IV.3.12. Voting proxies and voting instructions

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

IV.3.13. Policy governing bilateral contacts with shareholders

Risk Management

Risk management and internal control within TenneT are considered an integral part of an effective management control system. In pursuing its strategic objectives, TenneT operates within the boundaries of its carefully delineated (financial and non-financial) risk appetite.

The company has defined its risk appetite along seven dimensions: security of supply, safety, financial performance, customers, reputation, environmental issues and compliance. TenneT's risk appetite is represented by a risk matrix, which is used to determine and score the impact and likelihood of identified risks within the company. The risk matrix is evaluated every two years and was most recently approved by the Executive Board in 2013.

Risk management and internal control

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

- The adequate management of risks that may threaten the realisation of the strategic and operational objectives of TenneT;
- Compliance with applicable laws and regulation (e.g. Dutch Corporate Governance Code; German Business Control and Transparency Act and the German Accounting Law Reform Act);
- The reliability of financial and management reporting.

The risk management system is based on comprehensive bottom-up and top-down assessments across the seven risk dimensions listed above. These risks are assessed against a uniform set of criteria, continuously managed and reported on in a consistent and structural manner.

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

In 2013, we initiated a number of improvements to the risk management and internal control system:

- We started the development of a uniform project risk management methodology for large projects. Having one system facilitates a proper comparison of projects in terms of risk, and allows us to adopt consistent risk management plans to similar types of risks which occur in multiple projects.
- The Internal Control Framework was further developed, allowing for a better and a more structural way of monitoring the financial reporting risks and controls on a frequent and consistent basis.
- We implemented a new risk management tool, which provides functionality to link the strategic, operational and project risks, as well as additional options for reporting and analysis.

Roles and responsibilities

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

Three lines of defence model

1st line of defence	2nd line of defence	3rd line of defence
Business	Risk management	Audit
<p>Management are primarily responsible for managing its own process</p> <p>Responsible for identifying and controlling risks by using business control frameworks, implement internal processes and adequate controls</p>	<p>Setting Enterprise Risk Management frameworks</p> <p>Independent reporting to management board and audit committee</p> <p>Ensure first line takes ownership</p> <p>Advisor / consultant to first line</p>	<p>Provides assurance about design and effectiveness of 1st and 2nd line</p> <p>Reporting line to audit committee</p> <p>Advisory role to improve processes</p>

1st line of defence: Business

TenneT's managers bear primary responsibility for identifying, controlling and monitoring the risks within their processes and for maintaining an appropriate internal control framework. Internal controls ensure the reliability of our processes and, as a result, the reliability of the financial and management reporting. Ensuring uninterrupted working of these internal controls has our constant attention. Besides a Business Control Framework, a Tax and IT control framework are in place to ensure compliance with internal rules as well as external legislation.

2nd line of defence: Risk management

Corporate Risk Management is responsible for controlling and coordinating the risk management system within TenneT and for supporting the business with risk management and internal control matters.

TenneT's enterprise risk management (ERM) system is based on the international COSO II model (Committee of Sponsoring Organizations of the Treadway Commission). This model is widely accepted as a leading enterprise risk

management model for larger companies. The COSO II model takes the strategy of the company as a starting point and defines four types of risk: strategic, operational, financial / reporting and compliance. These risk types can occur across the seven risk dimensions as listed above.

ERM takes into account activities at all levels of the organisation: enterprise, division or subsidiary and performance unit processes. ERM is used within TenneT's asset management processes as part of the investment decision-making process, which is risk based. Additionally, project risk management helps us ensure that large-scale infrastructure projects are realised on time, according to quality specifications and within budget.

3rd line of defence: Internal audit

Internal audits form an integral part of TenneT's risk management and internal control system. These audits provide insight into how and to what extent the risks that may jeopardise the achievement of TenneT's strategic objectives are controlled. The purpose of these audits is to provide management with additional assurance on the effectiveness of internal controls.

The Internal Audit department schedules its audits based on a three-year cycle, which is revised annually to reflect the latest operational and strategic risk assessments performed by the Corporate Risk Management department. Specific audits are planned during the course of the year to target areas of heightened sensitivity or particular interest. The annual audit plan is submitted to the Executive Board and the Audit Committee for approval.

The Internal Audit department reports its findings and status of follow-up actions to the Audit Committee and the Executive Board on a quarterly basis.

Fraud and integrity

TenneT aims to operate in a consistent and reliable way, independent of suppliers and electricity producers, and providing all parties with guaranteed, non-discriminatory access to its transmission grid. The company operates in a straight-forward and predictable manner so that stakeholders can rely on TenneT at all times.

The Company Code and Rules of Conduct define the way of working at TenneT and are published on the company's website.

Potential fraud is one of the strategic risks identified by the Executive Board. Effective communication and awareness training regarding this subject assist TenneT in protecting the company and its employees against economic and reputational harm.

In 2011, the Fraud Committee was established. In the Fraud Committee, relevant corporate functions (Corporate Risk Management, Internal Audit and Corporate Safety & Security) participate under the chairmanship of the CFO and COO. The objective of the Fraud committee is to ensure awareness and prevention of fraud cases with the aim of reducing fraud risks.

In 2013, an internal workshop was organised to investigate possible scenarios for fraud within TenneT. Internal Audit is using these scenarios in their working programme to protect the company against possible fraud. Besides this, potential fraud detection is a standard part of all internal audits within TenneT.

For internal and external integrity issues, TenneT has a whistleblower procedure. In the Netherlands, employees can report any problems to a counsellor ('vertrouwenspersoon'). In Germany, this role is covered by the compliance officer. The whistleblower procedure is published on the company's website.

Key risks

TenneT's main risks are those that threaten the achievement of the company's strategic objectives and of being 'in control' of its operations. An overview of the main risks is provided below, including the actions to mitigate these risks. The risks are categorised into the four types of risk as defined by the COSO II model. It must be mentioned that the risk position may change during the year, as a result of internal and/or external factors.

Strategic risks

Strategic risks are related to TenneT's strategic objectives, as defined by the company's Executive Board. A description of our strategy is set out in the Strategy chapter.

A strategic risk assessment is performed annually. Each strategic risk has been assigned to a responsible Executive Board member who evaluates the development of the risk, the existence of control activities and

so-called 'key risk indicators'. The results from these evaluations are shared with the Executive Board, based on which the strategic risk assessment is updated. The risk assessment is discussed with the Supervisory Board and the Audit Committee.

Based on the strategic risk assessment conducted in May 2013, the most important strategic risks are presented in the table below.

Strategic risk	Risk mitigating actions
Financing of investments	
<ul style="list-style-type: none"> Inability to raise sufficient risk-bearing capital to execute investment programme. As a result, downward impact on credit rating leading to limitations in access to debt capital, higher cost of debt and declining profitability. 	<ul style="list-style-type: none"> Proactively approach towards potential equity investors Lobbying activities to ensure that regulatory frameworks remain adequate to safeguard attractive risk-return profile to investors Active financing strategy to diversify funding sources Cost control initiatives to manage financial performance within the boundaries of the regulatory framework
Regulatory / political changes	
<ul style="list-style-type: none"> Changes in regulation or regulatory parameters causing loss of cash flow and/ or value Government policy changes conflicting with TenneT's strategic objectives 	<ul style="list-style-type: none"> Maintain and invest in relationships among TenneT, regulators and governments Being proactive towards regulators and governments (e.g. development of a master plan regulatory framework)
Realisation of large projects	
<ul style="list-style-type: none"> Delays in executing investment programme due to lengthy permits / licensing processes, insufficient project control or external factors Inability to achieve efficiency in accordance with the regulatory targets 	<ul style="list-style-type: none"> Establishment of Large Projects business units in the Netherlands and Germany to intensify focus, project control and record-keeping Active stakeholder management to speed up the permitting and licensing procedures Further standardisation of designs, processes and procurement
Outage of critical IT systems	
<ul style="list-style-type: none"> Failure of or attack on critical IT systems disrupting the primary processes of TenneT 	<ul style="list-style-type: none"> IT strategy aimed at ensuring up-to-date IT (security) systems Integrated approach towards TenneT related companies Collaboration with (non) governmental organisations (e.g. the National Cyber Security Centre) Increase of number of employees involved in IT security Back-up and alternate locations of IT systems

Operational risks

The primary operational risks associated with TenneT's transmission services are failure to provide reliable high-voltage power transmission services on a 24/7 basis and to maintain the required quality standards.

In order to control these risks, TenneT Netherlands prepares a Quality and Capacity Plan bi-annually. The plan is reviewed by the Dutch regulatory authority. In addition to this bi-annual plan, the 'Vision 2030' document analyses long-term developments affecting the Dutch electricity supply and their impact on TenneT. TenneT Germany and the other German TSOs jointly draw up annual onshore and offshore grid-development plans to safeguard the electricity supply for the next 10 years. These plans require the approval of the German regulatory authority.

The process of drawing up and reviewing the (bi-)annual grid development plans for both the Netherlands and Germany gives management insight in the risk of not being able to provide the agreed capacity or to maintain

the required quality standards in specific parts of the grid. The annual investment plans and maintenance plans are designed to mitigate these risks.

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

In the table below the most important operational risks of TenneT Holding are presented.

Operational risk	Risk mitigating actions
Grid failures	
<ul style="list-style-type: none"> A higher number of incidents / interruptions as a result of more intensive grid usage and higher volatility due to fast increase in wind and solar generation in combination with the shutdown of nuclear power plants and mothballing of conventional power plants 	<ul style="list-style-type: none"> Implementation of improved IT systems and innovative processes Increased volume contracts of control and reserve power and redispatch capacity Revision of operating instructions and manuals Increased speed of replacements and investments
Offshore grid performance and availability	
<ul style="list-style-type: none"> Project delays and higher cost of connecting offshore wind farms Not meeting the availability criteria for the DC cables and to be held liable for the delays Damage to offshore connections in operational phase 	<ul style="list-style-type: none"> Intensive project control to ensure that large-scale infrastructure projects are realised on time, according to quality specifications and within budget Lobbying with the regulator and government on regulatory and liability framework Insurance for high (financial) impact risks
Realisation of planned investment portfolio	
<ul style="list-style-type: none"> Gap between planned and realised projects / portfolio. Risk of deterioration of the condition of the grid in the long term. 	<ul style="list-style-type: none"> Increased speed of replacement of crucial components Evaluation of projects (Plan Do Check Act) and project control Active stakeholder management to speed up the permit and licensing procedures

Financial and reporting risks

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

A broader description of TenneT's financial risks and the actions taken to mitigate these is presented separately in the notes to the financial statements ('Financial risk management').

In the table below a summary of the most important financial and reporting risks of TenneT Holding is presented.

Financial risk	Risk mitigating actions
Market risk	
<ul style="list-style-type: none"> Interest rate risk: interest payable on liabilities exceeds the cost of debt rate as reimbursed by the regulator Commodity price risk: exposure to commodity price fluctuations in case a seller in a certain transaction does not deliver (APX) Risks associated with clearing transactions: payment default by parties with programme responsibility regarding imbalance payments 	<ul style="list-style-type: none"> Significant part of debt portfolio is based on fixed interest rates Use of margining framework, collaterals and default fund contributions by members (APX) External parties with programme responsibility required to provide security in the form of bank guarantees or collaterals
Credit risk	
<ul style="list-style-type: none"> A counterparty does not meet its obligations, causing loss of cash/value 	<ul style="list-style-type: none"> Requirement of minimum ratings of counterparties and/or security in the form of bank guarantees or collaterals Monitoring of counterparty credit risk
Liquidity risk	
<ul style="list-style-type: none"> Inability to meet short-term payment obligations 	<ul style="list-style-type: none"> Monitoring of liquidity on a rolling 12-month forward looking basis Availability of multiple credit facilities Diversification of funding sources Diversification of debt maturities
Reporting risk	
<ul style="list-style-type: none"> Financial statements do not give a true and fair view of the company's financial position, financial performance and cash flows Incorrect (regulatory) reports or information to BnetzA, ACM, Tax authorities 	<ul style="list-style-type: none"> Use of internal control frameworks (Business, IT, tax framework), including internal control statements External and internal audit reviews and follow up on findings Use of internal accounting manuals

Compliance and regulatory risks

TenneT aims to comply to the fullest extent with all relevant national and international legislation, technical standards and regulatory decisions. Any breach of these may have negative financial and operational consequences. TenneT's activities being non-compliant with laws, technical standards and regulations is considered a key risk that demands continuous

management attention. The department managers are responsible for keeping up to date on relevant legal, technical or regulatory changes and for implementing the corresponding changes in their processes.

The table below presents examples of compliance risks and mitigating actions, grouped in three areas.

Compliance risk	Risk mitigating actions
General / legal compliance	
<ul style="list-style-type: none"> • Non-compliance with European or national laws and regulations, e.g. in the area of tendering and energy markets • Non-compliance with bilateral agreements between TenneT and other TSO's, suppliers, customers, etc. • Non-compliance with labour laws and agreements • Non-compliance with permits and licenses • Non-compliance with health, safety and environment laws and regulations 	<ul style="list-style-type: none"> • Active involvement of experts from Legal Affairs, Procurement, Human Resources, Safety & Security, Regulation, etc • Adequate registration of decisions and contracts by Legal Affairs and other involved departments • Involvement of external specialists (e.g. legal experts) when deemed necessary • Training and awareness programmes
Financial compliance	
<ul style="list-style-type: none"> • Non-compliance with IFRS, local GAAP, the Dutch Corporate Governance Code, the German Business Control and Transparency Act, the German Accounting Law Reform Act, etc • Non-compliance with financing agreements • Non-compliance with financial legislation • Non-compliance with tax laws and regulations 	<ul style="list-style-type: none"> • Active involvement of experts within Finance & Control, Treasury, Tax and Legal departments • Frequent knowledge update by means of training, external audit/expert reviews, etc • Availability of accounting manuals, treasury statute, etc • Use of outside expertise, if and when necessary
Technical compliance	
<ul style="list-style-type: none"> • Non-compliance with the Electricity Law and Technical Codes, ENTSO-E operational handbook, Electrical Safety Regulations and Standards, etc. 	<ul style="list-style-type: none"> • Regular assessments by the Technical Compliance Officer • Cooperation with regulatory authorities by the Corporate Asset Owner department • Involvement of electrical safety experts (Authorized Persons) and technical strategists

Regulatory risks

TenneT obtains substantially all of its revenues from regulated activities. Changes to the regulatory frameworks in the Netherlands and Germany directly affect our activities and performance; therefore it is important that our activities are supported by realistic, sustainable tariffs and a solid regulatory framework. Our Corporate Regulatory department monitors regulatory risks and manages the activities to mitigate these. To this end, they are in constant dialogue with the Dutch Authority for Consumer & Markets and the German Bundesnetzagentur.

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

Regulatory risks in the Netherlands

During 2012, the Trade and Industry Appeals Tribunal ('CBb') ruled that users that are not directly connected to the (extra) high-voltage grid are not required to pay system services fees, leading to the obligation for TenneT to refund fees that were unduly paid by these users. TenneT will be compensated for these repayments through an increase in the permitted tariff income in the years from 2014 onwards. We have established a framework to assess the claims and made several repayments during 2013, which shall be verified by the regulator. The adoption of article 91 in the Electricity Act as of 1 January 2014, provided further clarification of the exact group of affected users.

TenneT has lodged an appeal with the Trade and Industry Appeals Tribunal to challenge the regulator's decision on the revenue cap relating to the regulatory period 2014-2016. Specifically, TenneT is challenging the downward adjustment of the efficiency parameter by the regulator based on an additional national study (i.e. separate from the generic international TSO benchmark study) and the estimated frontier shift (productivity growth factor). Also, TenneT is challenging the permitted rate of return, as it believes it does not sufficiently reflect the regulatory and investment risks

which TenneT is facing. In TenneT's view, the decisions will make it more difficult to achieve a reasonable rate of return on investments, which is not supportive of investments necessary for the transition to a more sustainable energy supply system.

TenneT addresses the regulatory risks by means of constructive discussions with the Ministry of Economic Affairs regarding fundamental changes to the legislative regulatory framework. The Ministry is currently preparing an integral revision of the Dutch Electricity Act. Most significantly, these discussions relate to the elimination of the regulatory time lag, i.e. the time gap between cash investment and cash reimbursement through grid fees.

In the Energy Agreement it is stated that offshore wind capacity up to 4,450 MW must be operational in 2023 and that TenneT should be assigned the responsibility of offshore grid operator. It is now up to the Dutch government to take a decision on the design and the requirements of the regulatory system shortly. TenneT is involved in discussions with the Ministry of Economic Affairs regarding the required regulatory framework for offshore investments, which may vary on certain points from the onshore framework.

Regulatory risks in Germany

With effect from 28 December 2012, a new offshore liability regime was implemented which grants the operators of offshore wind farms reimbursement of financial damages caused by connection delays or interruptions. The financial consequences to TSOs of this lack of availability is not fully covered by the offshore liability charge which TSO's are allowed to levy in connection with the new law. While the TSO responsible for connecting can generally pass on damage payments made to offshore wind farms, the amount which can be passed on to end consumers can be reduced in cases of negligence or wilful misconduct by the TSO. In cases of slight negligence, a cap for the deductible of EUR 17.5 million per incident and cluster applies. While there is no explicit cap for the deductible in case of gross negligence, there is an overall cap of EUR 110 million per year on the aggregate deductibles

for either slight and/or gross negligence. In case of wilful misconduct on the part of the connecting TSO, no damage payments can be passed on to others.

Under the German Incentive Regulation ('Anreizregulierungsverordnung'), the regulator may set a lump-sum amount for offshore expenses during the Investment Measure period which differs from that for onshore expenses. The annual offshore lump-sum percentage amounts to 3.4% of cumulative historical acquisition cost. It is likely that this amount will be sufficient during the construction phase, but it is uncertain how the actual operating costs will develop in future years and there is a risk that the lump-sum compensation will not be sufficient to cover all operational costs after commissioning. The offshore lump-sum percentage does not include offshore grid losses; discussions with the regulator on the reimbursement of these costs came to an agreement that these shall be reimbursed through a separate voluntary negotiated agreement (VNA) and be included in the cost balancing mechanism.

During 2014, the regulator will perform an evaluation of the German incentive regulation system, the results of which will be reported to the Federal Ministry of Economics and Technology before 31 December 2014. Depending on the results, changes to the regulatory ordinances may be initiated after 2018. This may include, for instance, a switch to a weighted average cost of capital (WACC) reimbursement mechanism. TenneT is actively participating in this assessment.

On 9 November 2012, the regulator informed TenneT that TenneT Germany would not be granted TSO certification due to a perceived lack of financial resources, despite contrary recommendations from the European Commission. The regulator did not question TenneT's ability to operate the grid. After further discussions with the regulator, TenneT expects a positive certification decision during 2014.

Statements

of the Executive Board

In-control statement

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

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

- The enterprise risk management system which identifies, analyses and monitors the relevant risks to TenneT Holding;
- Business plans, quarterly reports and flash reports with information on the corporate objectives and the achievement thereof;
- Tax, IT and Business control frameworks to manage critical processes;
- Internal audits of critical processes and discussions on the follow-up of the audit findings with responsible managers;
- Follow-up of the recommendations from the external auditor's management letter;
- An internal 'Letter of Representation' process;
- Signing of a 'Letter of Representation' by TenneT's Executive Board.

The Executive Board has reviewed and analysed the strategic, operational, financial and compliance risks to which TenneT is exposed. Also, the Executive Board regularly assesses the design and effectiveness of the risk management and internal control system. The results are shared with the Audit Committee, the Supervisory Board and the external auditor.

The risk management and internal control system does not provide absolute assurance that corporate objectives will be achieved, 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.

The Executive Board is of the opinion that TenneT's risk management and internal control system provides a reasonable degree of assurance that the financial reporting does not contain any errors of material significance and that the risk management and internal control system has operated adequately in the year under review.

Statement of responsibility

We confirm that the financial statements for the period 1 January to 31 December 2013 have, to the best of our knowledge, been prepared in compliance with International Financial Reporting Standards as adopted by the EU and with Part 9, Book 2 of the Netherlands Civil Code, 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 risks and uncertainties faced by TenneT.

Arnhem, 10 March 2014

J.M. Kroon *

M.J. Fuchs *

O. Jager *

B.G.M. Voorhorst *

A.A. Hartman

W. Breuer

* Statutory Director

Report

by the Supervisory Board

In a rapidly changing energy market, which is transitioning from fossil fuels to renewables, TenneT faces significant challenges. Preparing and modernising the grid to support the ever-growing demand for energy requires major investments and carefully balanced decisions. The Supervisory Board is closely involved in further developments, both as supervisor and as an adviser and sounding board.

Supervision and advice

The Supervisory Board assesses whether the way in which the Executive Board acts is in compliance with the company's strategy and economic, financial and technical objectives. Each and every meeting starts by focusing on TenneT's performance regarding safety and security of electricity supply and other topics as outlined below.

Safety

The strengthening of TenneT's safety culture and particularly the improvements by contractors and the aim of maintaining and improving TenneT's safety standards has been a topic of constant attention. TenneT's performance with regard to Lost Time Injury Frequency (LTIF) in comparison to the most relevant peer group as well as the overall best performers was assessed. Also the developments with regards to TenneT's LTIF action plan were closely monitored.

Security of supply

Key topics relating to the security of supply were several innovative offshore and onshore projects as currently planned and undertaken by TenneT.

This involved discussions on balancing the impact of the growth of renewable energy, balancing onshore and offshore energy, and the earmarking of offshore energy in some parts of Europe as a priority area for investment and government support.

Risk management

With regard to risk management; the Supervisory Board discussed the results of the strategic risk assessment 2013, as well as the risk assessment methodology, which was introduced in 2012.

Investments

To continue a high level of reliability, TenneT is undertaking an extensive and balanced investment programme, which was one of the recurring topics in the meetings of the Supervisory Board. In 2013 a number of substantial and complex investments aimed at strengthening the Dutch and German onshore grid and the German offshore grid connections were on the agenda. The Supervisory Board assessed these investments not only from a strategic, economic and technical point of view but also addressed TenneT's ability to maintain relevant financial ratios and access to financial markets.

Financing

With regard to TenneT's financing structure, its financing position and the overall financing plan, the Supervisory Board reviewed intensively all strategic equity solutions as put forward by the Executive Board. Topics discussed included the financing structure of TenneT Group, cash flow forecasts as well as an IRR analysis of TenneT Holding B.V. and its subsidiaries.

The additional equity financing of specific offshore projects in Germany as provided by investors, such as Mitsubishi Corporation, the issue in November 2013 of a EUR 500 million senior unsecured bond under the Euro Medium Term Notes Programme and the loan as committed by the European Investment Bank (EIB) were discussed and subsequently put to the shareholder for approval. Another specific topic raised and discussed within the Supervisory Board and with the shareholder was the introduction of the '*Bürgeranleihe*' in Germany.

Reporting and audit

In the beginning of 2013, EY was appointed as external auditor. The Audit Committee/Supervisory Board chaired the selection and appointment procedure. In the meetings, the financial statements for the 2012 financial year, the 2013 internal quarterly reports and the 2013 interim results were discussed.

The meetings also covered the transition process after the appointment of the new external auditor as well as the management letters and auditor's reports.

Related topics discussed included the annual business plan for 2014 and the medium-term plan for 2014-2016, internal audit reports, the tax report and integrated reporting. Also, important financial reporting matters were discussed, such as the impact of adopting the OPEX lump-sum regulatory mechanism and whether IFRS guidelines would allow to defer (part of) the one-off gains given future uncertainties.

Shareholder relations

In view of the relationship with the shareholder, the (anticipated) effects of the policy on state-owned enterprises ('Nota Deelnemingenbeleid Rijksoverheid 2013') were on the agenda in 2013. The Supervisory Board discussed the long-term consequences of this policy, as published in October 2013, which stated that the Dutch Ministry of Finance wishes to maintain its current ownership of TenneT and does not seek financial investors to take a minority shareholding in TenneT at this stage, at the same time offering TenneT the option to explore whether strategic cross-participations with other

TSOs are desirable and feasible. The Supervisory Board will elaborate further on this discussion in 2014, based upon scenario's put forward by the Executive Board.

Other topics

Other topics in the Supervisory Board meetings included how TenneT responds to changes in the (European) energy landscape and how it will continue to support the security of supply and balancing in the cross-border North West European energy market. In addition, the Supervisory Board addressed the way in which the company settles the issue of legal liabilities (including offshore liability) and its legal and regulatory systems. Taking a responsible attitude towards the environment and society as a means of gaining acceptance and balancing the interests of stakeholders for the necessary expansion of the grid in the Netherlands and Germany were also discussed.

The Supervisory Board discussed the company's strategic objectives and achievements, including the evaluation of the acquisition of transpower stromübertragungs GmbH in 2010 by an independent consultancy firm. Furthermore, the Dutch regulator's decision on the revenue cap for the years 2014-2016 and the pro forma appeal against the decision in December 2013 were discussed, as well as the move to TenneT's new headquarters in Arnhem.

Selection, appointments, remuneration and performance

The Supervisory Board is involved in topics related to selection, succession and performance processes at Executive Board level.

Mid 2013, the Supervisory Board nominated Mr Otto Jager to succeed Mr Eelco de Boer as Chief Financial Officer. On 1 August 2013, Mr Otto Jager was appointed as CFO. The Supervisory Board is grateful for the contribution of Mr de Boer, who was CFO when TenneT faced a financially challenging period.

In 2013, the Supervisory Board drafted a description of the selection and appointment of directors as well

as of members of the Supervisory Board. Where appropriate, this included anticipating the effects of the new policy on state-owned enterprises.

Following the implementation of a newly adopted top structure, the revision of which was discussed in detail, the Executive Board consists of six members, four statutory directors and two titular directors from 1 January 2014. In all of 2013, the Executive Board consisted of four statutory directors and one titular director.

The Supervisory Board frequently discusses performance and remuneration related matters at its meetings. In 2013, specific topics on the agenda included the performance of statutory directors of the Executive Board, the review of senior management and succession planning, proposals for variable remuneration of statutory directors of the Executive Board and the 2012 remuneration report.

The TenneT Executive and Supervisory Boards bring together people with diverse experiences, skills and knowledge. TenneT prides this variety and believes it makes a positive contribution to the assessment of situations and the decision-making process. TenneT is aware that females are underrepresented in both the Executive Board and the Supervisory Board. TenneT is taking this into account with regard to future appointments and will make serious efforts to comply with the equal gender targets set by the European Commission in order to ensure a more equal gender representation in the Boards by 2020. As a consequence, TenneT appointed its first female Supervisory Board member in 2013.

Composition and meetings of the Supervisory Board

Composition of the Supervisory Board

Members of the Supervisory Board are appointed for a term of four years with a maximum of three terms. Details on this can be found on TenneT's website.

The Supervisory Board discussed the selection of new members of the Supervisory Board, as the Supervisory Board's composition changed in the year under review: both Mr Jan Vugts and Mr Fokko van Duyne retired from the Supervisory Board after serving for the maximum of three terms. During these 12 years, TenneT has grown significantly and transformed into a relevant North West European TSO. TenneT is grateful for their contribution and dedication during this time. Mrs Stephanie Hottenhuis was appointed to the Supervisory Board on 1 September 2013 and Mr Hans Fischer was appointed with effect from 1 January 2014.

All Supervisory Board members are independent in accordance with both the Corporate Governance Code and the Electricity Act 1998. None has any direct or indirect links with legal persons (or shareholders thereof) engaged in the production, purchase or supply of electricity or gas.

One of the members of the Supervisory Board is also a member of the *Aufsichtsrat*, the equivalent of the Supervisory Board at the company TenneT TSO GmbH in Germany. During 2013 and until 18 March 2014, Mr Jan Vugts is fulfilling this role.

Further information on the members of the Supervisory Board can be found elsewhere in this annual report.

Supervisory Board Meetings

The Supervisory Board held nine meetings in 2013. Except for one meeting, where there was one absentee, all meetings were attended in full.

For Supervisory Board meetings, the relevant topics were prepared by the three committees as described below.

Supervisory Board Committees

The Supervisory Board has three committees; an Audit Committee, a Remuneration and Appointments Committee and a Strategic Investments Committee. Each of the Supervisory Board members is also a member of at least one of the three Committees.

The chairman of the Supervisory Board does not act as chairman of any of the Committees.

The main task of the committees is to prepare the plenary Supervisory Board discussion and decision-making on specific delegated subjects and to advise the Supervisory Board. At Supervisory Board meetings, the chairmen of the committees report on the subjects they have discussed. The agendas, documents and minutes of the committee meetings are submitted prior to meeting with the Supervisory Board.

During the year in review, the committee meetings were fully attended.

Audit Committee

In 2013, the Audit Committee consisted of Mr Pieter Verboom (chairman) and Mr Jan Vugts. The committee held seven meetings in 2013 in the presence of the Chairman of the Executive Board and the CFO. With regard to specific topics, the meetings were also attended by the responsible senior managers. Four were attended by our external auditor. Per 1 January 2014, Mr Jan Vugts retired and Mr Aad Veenman has joined the Audit Committee as a member.

Remuneration and Appointments Committee

Up until November 2013, the Remuneration and Appointments Committee consisted of Mr Fokko van Duyn (chairman) and Mr Aad Veenman. After the retirement of Mr Fokko van Duyn, Mrs Stephanie Hottenhuis joined this Committee as chairman. The Committee held six meetings in 2013, each in the presence of the chairman of the Executive Board. With regard to specific topics, the meetings were also attended by the senior manager Human Resources.

Strategic Investments Committee

In 2013, the Strategic Investments Committee consisted of Mr Fokko van Duyn (chairman until November 2013), Mr Aad Veenman and Mr Rien Zwitserloot (chairman since November 2013). The committee held four meetings in 2013, each in the presence of members

of the Executive Board. As per 1 January 2014, this Committee consists of Mr Rien Zwitserloot, Mr Hans Fischer and Mr Aad Veenman.

Supervisory Board performance appraisal

In autumn 2013, the Supervisory Board evaluated its own performance. The previous evaluation, which took place at the end of 2011 and beginning of 2012, was conducted under supervision of an external facilitator, while the current evaluation was done by the Supervisory Board itself, using a questionnaire. Input was gathered from the members of the Supervisory Board, the Executive Board and the shareholder. Results of the evaluation were discussed during the Supervisory Board meeting in November 2013 and will be further elaborated on in early 2014.

Permanent education

Permanent education is important to the Supervisory Board. After being appointed, new Supervisory Board members take part in an introduction programme focused on the key business characteristics of TenneT. In 2013, an in-depth workshop was held with regard to regulation. Furthermore, site visits are undertaken each year.

Contacts with the shareholder

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

Given the topics on the Supervisory Board's agenda in the year under review, there was frequent contact with the shareholder. Topics which were discussed during these meetings included the appointment of the CFO and the related remuneration which is based on the remuneration policy as established by the shareholder in January 2012. A yearly recurring topic is the remuneration of the Executive Board, specifically the variable remuneration which forms an element of the remuneration of Executive Board members. The Supervisory Board also discussed the selection of a new member of the Supervisory Board with the shareholder.

Furthermore the envisaged change in the Articles of Association of the company was addressed as well as the investment programme of TenneT and its financing.

Contacts with the Works Council

The Supervisory Board attaches great importance to a good working relationship with the Works Council. 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 the Works Council's remit. Contacts between the Supervisory Board and the Works Council again proved valuable in the year under review, especially in view of developments in the energy market in general and at TenneT in particular. The Supervisory Board greatly appreciates the way in which the various subjects were addressed.

In November 2013, the Supervisory Board met with the Works Council and the Executive Board to discuss the topic 'Integration of renewables'.

Financial statements

The Supervisory Board has, based on the preparatory work and advice of the Audit Committee, examined the 2013 integrated annual report, the 2013 financial statements and the combined independent auditor's report and assurance report issued by EY. It 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 discharges the Executive Board from liability in respect of its management of the company and releases the Supervisory Board from liability in respect of its supervision.

Word of appreciation

In the year under review, whilst facing significant challenges in the energy market, TenneT's work safeguarded the security and safety of supply and the company's efforts resulted in solid financial results.

The Supervisory Board recognises these achievements and therefore, the Board would like to thank the members of the Executive Board and all TenneT managers and employees for their contribution and continuous commitment.

The Supervisory Board much values the contribution by the Company Secretary, who supports the Supervisory Board and its members in their work.

Arnhem, 10 March 2014

A.W. Veenman (chairman)
P.M. Verboom (vice-chairman)
J.L.M. Fischer
S. Hottenhuis
R.G.M. Zwitterloot

Remuneration report

The Remuneration Report sets out the current remuneration policy for the statutory directors of TenneT Holding B.V., as approved by the shareholder. The Remuneration Report specifies any adjustments in salary for the statutory directors in 2013, their success at meeting set targets and the resulting awards of variable remuneration. The report also specifies the remuneration received by the members of the Supervisory Board.

Remuneration policy of TenneT Holding B.V.

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

Employment market reference group

Remuneration for the directors of TenneT has been set using a benchmark, a comparison with organisations competing in the same business and employment markets as TenneT.

These organisations include:

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

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

As part of its analysis, the shareholder tests this remuneration ceiling against a group of reference companies relevant to TenneT, comprising 75% (semi) public and 25% private companies.

Fixed remuneration

This benchmarking method resulted in a 'norm' level of remuneration for TenneT directors that exceeds the maximum desired by the shareholder of EUR 361,000 (as at 1 January 2013).

On the appointment of a new member of the Executive Board, the Supervisory Board shall, at the request of the shareholder, limit the sum of fixed and variable remuneration to a maximum of EUR 361,000 (as at 1 January 2013). To achieve a balanced remuneration within both the Executive Board and the next level of senior management, the maximum fixed and variable remuneration of the vice chairman shall be between that of the CEO and those of the CFO and COO.

If, in the opinion of the Supervisory Board, this leads to unacceptable risks to the organisation, because the available candidates do not have the right profile or necessary experience, the Supervisory Board shall consult with the shareholder. The Supervisory Board will determine the amount of any annual increase in the fixed

remuneration. 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.

Variable remuneration

To encourage the achievement of the company's objectives, part of the directors' remuneration is linked to certain challenging personal targets. These are set in advance by the Supervisory Board and include those of a public or societal nature.

Performance targets fall into four categories:

Organisation (human resources, safety and security of supply), Strategy, Finance, and Operations. The comparative weighting of these performance categories varies from one year to the next, and differs 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 remuneration includes two separate components: the annual performance-based variable remuneration (limited to 25% of 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 upon meeting performance targets agreed for a period of three years. To preclude major fluctuations in the total annual remuneration, the long-term variable component will be paid annually in the form of an advance payment, based on progress to date. The final calculation of the long-term variable component will be performed at the end of the relevant three-year period, after which part of the variable remuneration which was paid in advance can be reclaimed. If, within a reasonable period after determining the variable remuneration, it is established that the award needs to be adjusted as a result of factors unknown when the award was made, the Supervisory Board shall decide whether and the extent to which the award of the variable remuneration needs to be revised.

Compensation for early termination

Directors are appointed to the Executive Board for a period of four years. If the contract is terminated within that period, compensation ('severance pay') will generally be limited to the equivalent of one year's Fixed remuneration. If such compensation is considered unreasonable in the first term of appointment, up to two years' Fixed remuneration may be paid at the discretion of the Supervisory Board, following consultation with the shareholder.

Other allowances and secondary benefits

The total remuneration package for directors includes an appropriate and fiscally acceptable allowance (EUR 3,300 per annum) for necessary expenses, the use of a lease car (of a type comparable to those provided to directors of similar organisations) including possible private use, accident and director's and officers' liability insurance, and thirty days' paid leave per annum.

Secondary benefits also include a nominal contribution towards health insurance premiums (EUR 720 gross per annum, possibly increased by EUR 360 gross per annum (depending on a top-up insurance with a collective insurer), and the choice of other flexible individualised benefits (EUR 500 gross per annum). In addition, directors receive a percentage of their fixed remuneration in the form of an employer's contribution to a life-course savings scheme. The exact percentage is established by Collective Labour Agreement (1.8%). The above benefits are applicable to all other TenneT employees.

The company does not extend loans, loan guarantees or advances against future earnings.

Employment contracts of directors appointed before 2011

In the cases of directors appointed before 2011 and with employment contracts that differ from the remuneration policy determined in 2013, the agreed employment terms and conditions will be respected. The most important deviations from the current remuneration policy relate to the non-applicability of the long-term variable remuneration and remuneration norm.

Remuneration of the Executive Board

Fixed remuneration

With effect from 1 January 2013 and in accordance with the indexation for employees as determined by the 'NWB' Collective Labour Agreement for grid companies, the salaries of the statutory directors have been indexed at 1.5%. The one-off payment of 0.5% laid out in this Collective Labour Agreement was not paid out to the statutory members of the Executive Board however.

In addition, the Supervisory Board has awarded a minimal 1% increase exclusively to the Chief Operating Officer. This increase is based on the assessment of the performance and experience of the director and a comparison of his fixed remuneration with what is usual for comparable functions in the employment market in the Netherlands. In light of the developments in the remuneration market, it has been decided to limit the maximum remuneration to 90% of the median for the fifth consecutive year. The increase in remuneration for the Chief Operating Officer conforms with this decision.

The secondary benefits of board members, consisting of a contribution to the life-course savings scheme, the private use of a lease car, a contribution to health insurance, and a budget for flexible terms of employment and reimbursement for costs, are in accordance with the current remuneration policy.

In 2013, in accordance with the legally imposed crisis levy of 18 July 2012, the company shall pay an additional EUR 62,000 tax on the combined Dutch fiscal income of the statutory directors over 2013.

Variable remuneration

Based on achievement of present targets, the Supervisory Board decided to award the Executive Board variable payment realisation percentages between 80 and 93%, which resulted in the following remunerations over 2013. The Supervisory Board has concluded that there are no insights that might lead to the revision of the variable remuneration paid out in former years.

Remuneration Executive Board

	Fixed remuneration ⁵⁾		Variable remuneration (annual)		Variable remuneration (long term) ³⁾	
(in EUR thousand)	2013	2012	2013	2012	2013	2012
J.M. Kroon (Chairman Executive Board and Chief Executive Officer) ⁴⁾	327	322	70	71	N/A	N/A
M.J. Fuchs (Vice-chairman Executive Board) ⁴⁾	268	264	235	231	-	-
B.G.M. Voorhorst (Chief Operating Officer) ⁴⁾	249	243	51	50	-	-
E.T.A. de Boer (Chief Financial Officer) ¹⁾	198	234	40	51	-	24
O. Jager (Chief Financial Officer) ²⁾	95	-	21	-	10	-

¹⁾ Mr. De Boer resigned from the board per 1 August 2013 and left the company per 31 October 2013, after transferring his duties.

²⁾ Mr. Jager was appointed as a board member by the shareholder per 1 August 2013.

³⁾ The final determination of the long-term variable remuneration is made following the period to which the long-term remuneration applies.

⁴⁾ Board members appointed before 2011, to whom the current remuneration policy is not applicable.

⁵⁾ The above table excludes pension and similar costs as disclosed under 'Pension costs'.

Secondary benefits include course of life ("levensloop") supplement, expense allowance, health insurance contribution and contribution in respect of a budget for flexible working arrangements. In addition, with respect to the private use of leased vehicles, the customary addition to taxable income is applicable for personal income tax purposes. The value of private mileage of leased vehicles

for Mr. Kroon is estimated at EUR 5,000, for Mr. Jager at EUR 2,500, for Mr. Voorhorst at EUR 7,500 and for Mr. Fuchs at EUR 7,500. These amounts are not included in the secondary benefits, as mentioned in the next table. The Company does not reimburse its directors for any personal income tax consequences resulting from the private use of leased cars.

Secondary benefits

(in EUR thousand)	2013 ³⁾	2012 ³⁾
J.M. Kroon (Chairman Executive Board and Chief Executive Officer)	8	7
M.J. Fuchs (Vice-chairman Executive Board)	1	1
B.G.M. Voorhorst (Chief Operating Officer)	6	6
E.T.A. de Boer (Chief Financial Officer) ¹⁾	5	5
O. Jager (Chief Financial Officer) ²⁾	2	-

¹⁾ Mr. De Boer resigned from the board per 1 August 2013 and left the company per 31 October 2013, after transferring his duties.

²⁾ Mr. Jager was appointed as a board member by the shareholder per 1 August 2013.

³⁾ Secondary benefits as included in this table include course of life ("levensloop") supplement, health insurance contribution and contributions in respect of a budget for flexible working arrangements.

Pension costs

The pensions of all Dutch members of the Executive Board are administered by the ABP Pension Fund, which in 2013 increased its pension premium from 24.4% in 2012 to 25.7 in 2013. The pension accrual is based on a midpoint salary system. Besides the ABP pension, the Chief Executive Officer will accrue additional pension to facilitate retirement at 61 years of age, under a non-contributory pension plan based on total income, agreed when he joined the company.

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

Based on an agreement with the Supervisory Board from 2010, the Chief Executive Officer acquired leave days in 2013 for an amount of EUR 24,336 and in 2012 for EUR 24,048.

Pension contributions and pension reserves

(in EUR thousand)	2013	2012
J.M. Kroon (Chairman Executive Board and Chief Executive Officer)	159	143
M.J. Fuchs (Vice-chairman Executive Board)	187	178
B.G.M. Voorhorst (Chief Operating Officer)	48	43
E.T.A. de Boer (Chief Financial Officer) ¹⁾	38	42
O. Jager (Chief Financial Officer) ²⁾	13	-

¹⁾ Mr. De Boer resigned from the board per 1 August 2013 and left the company per 31 October 2013, after transferring his duties.

²⁾ Mr. Jager was appointed as a board member by the shareholder per 1 August 2013.

Remuneration of the Supervisory Board

Remuneration of the Supervisory Board over 2013 was unchanged versus 2012, in contrast to the previous policy of indexing Supervisory Board remuneration by 2.5%. Each Supervisory Board member sits on one or

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

During 2013, the composition of the committees was as follows:

	Audit Committee	Remuneration and Appointments Committee	Strategic Investments Committee	Aufsichtsrat TenneT TSO GmbH
A.W. Veenman		x	x	
J.F.T. Vugts ¹⁾	x			x
J.F. van Duyne ²⁾		x	x	
R.G.M. Zwitterloot			x	
P.M. Verboom	x			
S. Hottenhuis ³⁾		x		

¹⁾ Resigned per 31 December 2013

²⁾ Resigned per 26 October 2013

³⁾ Appointed per 1 September 2013 as Supervisory Board member and per 1 November 2013 to the Remuneration and Appointments Committee.

Following the changes in the Supervisory Board composition at the end of 2013 and the start of 2014, changes in the committee roles were also made.

The current committee roles of the Supervisory Board members are stated in the chapter 'Supervisory Board'.

The remuneration policy for the committees of the Supervisory Board and the Aufsichtsrat was as follows in 2013:

(EUR)		
Audit Committee	6,480	per annum
Remuneration and Appointments Committee	5,125	per annum
Strategic Investments Committee	5,125	per annum
Aufsichtsrat TenneT TSO GmbH	5,500	per annum

The total remuneration received by members of the Supervisory Board in 2013 was as follows:

Remuneration Supervisory Board

	Fixed remuneration		Committee remuneration		Total remuneration	
(in EUR thousand)	2013 ⁴⁾	2012	2013	2012	2013	2012
A.W. Veenman (Chairman)	27	27	10	10	37	37
J.F.T. Vugts (Vice-Chairman) ¹⁾	22	22	12	12	34	34
J.F. van Duyne (Member) ²⁾	16	20	9	10	25	30
R.G.M. Zwitserloot (Member)	20	20	5	5	25	25
P.M. Verboom (Member)	20	7	6	2	26	9
S. Hottenhuis (Member) ³⁾	6	-	1	-	7	-

¹⁾ Resigned per 31 December 2013

²⁾ Resigned per 26 October 2013

³⁾ Appointed per 1 September 2013 as Supervisory Board member and per 1 November 2013 to the Remuneration and Appointments Committee.

⁴⁾ The legally imposed crisis levy is nil for members of the Supervisory Board

Revision of remuneration policy of the Supervisory Board

In 2012 the remuneration policy of the Supervisory Board was revised. A comparison was made with the remuneration of members of supervisory boards of organisations that are comparable to TenneT, using the same reference group that was used for determining the remuneration level of the Executive Board. Despite the growth and development of the company, it was decided to keep the current remuneration policy for the Supervisory Board unchanged, for the second year.

Expansion of the Supervisory Board

Considering the growing complexity of the organisation, the Supervisory Board will be extended with one member. The shareholder has approved the appointment of a sixth member. This will be realised in 2014.

Executive Board





ir. J.M. (Mel) Kroon MBA
Chairman Executive Board

Year of birth: 1957
Nationality: Dutch
Initial appointment: 2002
Principal position: Chief Executive Officer

Other positions qualitate qua:

Chairman Supervisory Board
TenneT TSO GmbH
Member Supervisory Board EPEX SPOT
Member Supervisory Board APX
Chairman of the Supervisory Board
NOVEC B.V.
Member Board of Directors (Conseil
d'Administration) Powernext S.A.
Member of the Board of CASC.EU

Other positions:

Member Supervisory Board Havenbedrijf
Rotterdam N.V.
Member Supervisory Board HTM
Personenvervoer N.V.



ir. B.G.M. (Ben) Voorhorst MBA

Member Executive Board

Year of birth: 1959
Nationality: Dutch
Initial appointment: 2006
Principal position: Chief Operating Officer

Other positions qualitate qua:

Member Board TenneT TSO B.V.
Member Supervisory Board NOVEC B.V.
Member Board 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
Member Board ENTSO-E



Dipl.-Ing. M.J. (Martin) Fuchs

Vice-chairman Executive Board

Year of birth: 1953
Nationality: German
Initial appointment: 2010
Principal position: Chief Asset
Management Officer

Other positions qualitate qua:

Chairman Board TenneT TSO GmbH

Other positions:

Member Supervisory Board SAG Langen



mr. A.A. (Lex) Hartman

Member Executive
Board (non-statutory director)

Year of birth: 1956
Nationality: Dutch
Initial appointment: 2008
Principal position: Director
Corporate Development

Other positions qualitate qua:

Managing director TenneT TSO GmbH
Chairman Board BritNed
Development Ltd.
Director NLink International B.V.
Member Management board FLOW –
Far and Large Offshore Wind



drs. O. (Otto) Jager MSc RC CFA

Member Executive Board

Year of birth: 1970
Nationality: Dutch
Initial appointment: 2013
Principal position: Chief Financial Officer

Other positions qualitate qua:

Member Board TenneT TSO B.V.
Member Aufsichtsrat TenneT TSO GmbH
Member Board Open Tower Company B.V.



W. (Wilfried) Breuer

Member Executive
Board (non-statutory director)

Year of birth: 1965
Nationality: German
Initial appointment: 1 January 2014
Principal position: Director Offshore

Other positions qualitate qua:

Managing Director TenneT
Offshore GmbH
Member of Cigre German Committee

Supervisory Board



**Dr. ir. A.W. (Aad) Veenman**

Chairman Supervisory Board

Member:

- Remuneration and Appointments Committee
- Strategic Investments Committee
- Audit Committee

Year of birth: 1947

Nationality: Dutch

Initial appointment: 9 March 2005

Expiration third term: 9 March 2017

Principal position: Former President N.V.

Nederlandse Spoorwegen

Other positions:

Member Supervisory Board and Chairman of the Audit and Risk Committee

Achmea B.V.

Member Supervisory Board

Prysmian Holding Netherlands N.V.

Member Supervisory Board

Royal Huisman Shipyard B.V.

Chairman Economic Cluster Logistics

**drs. S. (Stephanie) Hottenhuis**

Member Supervisory Board

Chairman Remuneration and Appointments Committee

Year of birth: 1965

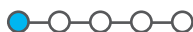
Nationality: Dutch

Initial appointment: 1 September 2013

Expiration first term: 1 September 2017

Principal position:

Member of Executive Board Arcadis N.V.

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

Member Supervisory Board

Chairman Strategic Investments Committee

Year of birth: 1949

Nationality: Dutch

Initial appointment: 24 November 2010

Expiration first term: 24 November 2014

Principal position: Former Chairman

Management Board Wintershall AG

Other positions:

Member Supervisory Board

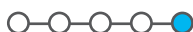
Royal VOPAK N.V.

Member Supervisory Board

Amsterdam Capital Trading Group B.V.

Member Supervisory Board EBN B.V.

Member Supervisory Board Vroon B.V.

**Dr. J.L.M. (Hans) Fischer**

Member Supervisory Board

Member Strategic Investments Committee

Year of birth: 1956

Nationality: German

Initial appointment: 1 January 2014

Expiration first term: 1 January 2018

Principal position: Chief Technical Officer,

Tata Steel Europe

Other positions:

Member of the Management Board of

DNHK – Deutsch-Niederländische

Handelskammer / Dutch-German Chamber of Commerce

Member of the Management Board of

Steel Institute VDEh

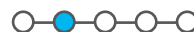
Chairman of the Management Board of

FOSTA – Forschungsvereinigung

Stahlanwendung e. V.

Member of the Executive Board of M2i

(Materials Innovation Institute)

**Dr. P.M. (Pieter) Verboom**

Vice-chairman Supervisory Board

Chairman Audit Committee

Year of birth: 1950

Nationality: Dutch

Initial appointment: 18 September 2012

Expiration first term: 18 September 2016

Principal positions: Former Executive

Vice-President and CFO Schiphol Group

CFO of RFS Holland Holding

Other positions:

Vice-chairman of the Supervisory Board

and Chairman of the Audit Committee

of VastNed Retail N.V.

Chairman of the Board of Trustees

of the master's programme for registered controllers and Advisor to

the 'New CFO programme',

Erasmus University Rotterdam

Expert lawyer of the Dutch Enterprise Court

Member of the Supervisory Board of

Brisbane Airport Corporation

Adviser to John F. Kennedy Airport,

New York



Financial statements

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Consolidated financial statements

Consolidated statement of income

for the year ended 31 December (EUR million)

	Notes	2013	2012
Revenue	6.1	2,429	1,629
Energy and capacity expenses	6.2.1	786	755
Transmission grid and system expenses	6.2.2	200	140
Personnel expenses	6.2.3	164	150
Depreciation and amortisation of assets	7.1, 7.2	251	223
Impairment	7.1	-	9
Impairment reversal	7.1	-	-120
Other operating expenses	6.2.4	265	150
Other losses / (gains) – net	6.2.5	-26	-12
Total operating expenses		1,640	1,295
Share in (loss)/ profit of joint ventures and associates	7.3, 7.4	15	2
Operating profit		804	336
Finance income	6.3	13	18
Finance expenses	6.3	-123	-118
Finance result		-110	-100
Profit before income tax		694	236
Income tax expense	7.5	190	56
Profit for the year		504	180
Profit attributable to:			
Equity holders of ordinary shares	7.12	393	144
Hybrid securities	7.12	33	33
Non-controlling interests	7.13	78	3
		504	180

Net income and earnings per share attributable to the equity holders of the company

for the year ended 31 December (in EUR per share)

	Notes	2013	2012
Net income per share	6.4	2,130	885
Basic and diluted earnings per share	6.4	2,005	760

Consolidated statement of comprehensive income

for the year ended 31 December (EUR million)

	Notes	Attributable to equity holders of the company							Non-controlling interest	Total equity
		Hedging reserve	Reserve for exchange rate difference	Retained earnings	Unappropriated result	Equity attributable to ordinary shares	Hybrid securities	Equity attributable to owners of the company		
		7.12		7.12	7.12		7.12		7.13	
2012										
<i>Other comprehensive income to be reclassified to profit or loss in subsequent years:</i>										
Amortisation of hedges	7.12	1	-	-	-	1	-	1	-	1
OCI movements in joint ventures and associates	7.4	-	-	-1	-	-1	-	-1	-	-1
Taxation	7.5	-	-	-	-	-	-	-	-	-
		1	-	-1	-	-	-	-	-	-
<i>Items not to be reclassified to profit or loss in subsequent years:</i>										
Re-measurement of defined benefit pensions	7.16	-	-	-36	-	-36	-	-36	-	-36
Taxation	7.5	-	-	9	-	9	-	9	-	9
		-	-	-27	-	-27	-	-27	-	-27
Total other comprehensive income 2012		1	-	-28	-	-27	-	-27	-	-27
Profit for the year		-	-	-	144	144	33	177	3	180
Total comprehensive income 2012		1	-	-28	144	117	33	150	3	153
2013										
<i>Other comprehensive income to be reclassified to profit or loss in subsequent years:</i>										
OCI movements in joint ventures and associates	7.4	-	-	-1	-	-1	-	-1	-	-1
Taxation	7.5	-	-	-	-	-	-	-	-	-
		-	-	-1	-	-1	-	-1	-	-1
<i>Items not to be reclassified to profit or loss in subsequent years:</i>										
Re-measurement of defined benefit pensions	7.16	-	-	7	-	7	-	7	-	7
Taxation	7.5	-	-	-2	-	-2	-	-2	-	-2
		-	-	5	-	5	-	5	-	5
Total other comprehensive income 2013		-	-	4	-	4	-	4	-	4
Profit for the year		-	-	-	393	393	33	426	78	504
Total comprehensive income 2013		-	-	4	393	397	33	430	78	508

Consolidated statement of financial position

for the year ended 31 December (EUR million)

Assets	Notes	2013	2012	1 January 2012
Non-current assets				
Tangible fixed assets	7.1	8,389	6,744	4,921
Intangible assets	7.2	130	117	121
Investments in joint ventures	7.3	280	282	281
Investments in associates	7.4	18	19	20
Deferred tax assets	7.5	-	1	2
Other financial assets	7.6	17	16	19
Total non-current assets		8,834	7,179	5,364
Current assets				
Inventories	7.7	13	10	10
Account- and other receivables	7.8	1,849	1,973	1,556
Financial assets	7.9	53	35	26
Income tax receivable	7.5	1	41	6
Cash and cash equivalents	7.10	550	79	706
		2,466	2,138	2,304
Assets of disposal group classified as held for sale	7.11	3	680	924
Total current assets		2,469	2,818	3,228
Total assets		11,303	9,997	8,592

Consolidated statement of financial position

for the year ended 31 December (EUR million)

Equity and liabilities	Notes	2013	2012	1 January 2012
Equity				
Equity attributable to ordinary shares	7.12	2,439	2,104	2,063
Hybrid securities	7.12	520	517	517
Equity attributable to owners of the company		2,959	2,621	2,580
Non-controlling interests	7.13	401	220	17
Total equity		3,360	2,841	2,597
Non-current liabilities				
Borrowings	7.14	3,147	2,670	2,580
Deferred income	7.15	266	211	172
Deferred tax liability	7.5	468	415	395
Provisions	7.16	405	186	128
Other liabilities	7.17	15	5	23
Total non-current liabilities		4,301	3,487	3,298
Current liabilities				
Account- and other payables	7.18	2,368	1,523	1,354
Borrowings	7.14	67	886	17
Other financial liabilities	7.19	423	30	36
Deferred income	7.15	5	4	4
Income tax payable	7.5	103	19	53
Provisions	7.16	217	324	99
Bank overdrafts	7.10	4	-	-
Other liabilities	7.20	455	249	253
		3,642	3,035	1,816
Liabilities of disposal group classified as held for sale	7.11	-	634	881
Total current liabilities		3,642	3,669	2,697
Total equity and liabilities		11,303	9,997	8,592

Consolidated statement of changes in equity

for the year ended 31 December (EUR million)

		Attributable to equity holders of the company									Non-controlling interest	Total equity
		Paid-up and called-up capital	Share premium reserve	Hedging reserve	Reserve for exchange rate difference	Retained earnings	Unappropriated result	Equity attributable to ordinary shares	Hybrid securities	Equity attributable to owners of the company		
Notes		7.12		7.12		7.12			7.12		7.13	
Balance at 1 January 2012		100	600	4	-2	1,151	210	2,063	517	2,580	17	2,597
Total comprehensive income		-	-	1	-	-28	144	117	33	150	3	153
Dividends paid	7.12	-	-	-	-	-	-60	-60	-	-60	-	-60
Distribution on hybrid securities	7.12	-	-	-	-	-	-	-	-33	-33	-	-33
Taxation on distribution on hybrid securities	7.12	-	-	-	-	-	8	8	-	8	-	8
Sale to non-controlling interest	7.13	-	-	-	-	-10	-14	-24	-	-24	99	75
Capital contribution	7.13	-	-	-	-	-	-	-	-	-	101	101
Appropriation remaining prior year profit		-	-	-	-	144	-144	-	-	-	-	-
Balance at 31 December 2012		100	600	5	-2	1,257	144	2,104	517	2,621	220	2,841
Total comprehensive income		-	-	-	-	4	393	397	33	430	78	508
Dividends paid	7.12	-	-	-	-	-	-59	-59	-	-59	-	-59
Distribution on hybrid securities	7.12	-	-	-	-	-	-	-	-33	-33	-	-33
Taxation on distribution on hybrid securities	7.12	-	-	-	-	-	8	8	-	8	-	8
Issue of hybrid securities	7.12	-	-	-	-	-3	-	-3	3	-	-	-
Sale of subsidiary	7.13	-	-	-	-	-3	-	-3	-	-3	-12	-15
Sale to non-controlling interest	7.13	-	-	-	-	-2	-3	-5	-	-5	23	18
Capital contribution	7.13	-	-	-	-	-	-	-	-	-	92	92
Appropriation remaining prior year profit		-	-	-	-	93	-93	-	-	-	-	-
Balance at 31 December 2013		100	600	5	-2	1,346	390	2,439	520	2,959	401	3,360

Consolidated statement of cash flows

for the year ended 31 December (EUR million)

	Notes		2013		2012
Operational activities					
Profit for the year			504		180
Non-cash adjustments to reconcile profit to net cash flows:					
Depreciation, amortisation and impairment (reversal) of assets	7.1, 7.2	251		112	
Gain on disposal of tangible and intangible fixed assets	6.2.5	-		-12	
Gain on disposal of subsidiary	7.11	-25		-	
Finance income and expenses	6.3	110		100	
Income tax expense	7.5	190		56	
Share in (loss)/profit of joint ventures and associates	7.3, 7.4	-15		-2	
Increase in deferred income	7.15	55		39	
Movements in provisions and other (financial) liabilities and assets		100		45	
			666		338
Working capital adjustments:					
(Increase)/decrease in trade and other receivables		381		-815	
(Increase)/decrease in inventories		-2		-	
Increase/(decrease) in trade and other payables		865		162	
Increase/(decrease) in other current (financial) liabilities		-126		-239	
			1,118		-892
Income tax paid			-5		-83
Net cash flows from operating activities			2,283		-457
Investment activities					
Purchase of tangible and intangible fixed assets	7.1, 7.2	-1,802		-1,623	
Proceeds from sale of tangible and intangible fixed assets		6		15	
Proceeds from sale of subsidiary	7.11	28		-	
Dividends received from joint ventures and associates	7.3, 7.4	20		-	
Capital contribution to joint ventures and associates	7.3, 7.4	-2		-	
Contributions to financial assets	7.6, 7.9	-51		-19	
Proceeds from repayment of financial assets	7.9	33		10	
Interest received		-		5	
Net cash flows used in investing activities			-1,768		-1,612
Financing activities					
Proceeds from borrowings	7.14	3,049		3,259	
Repayment of borrowings	7.14	-3,385		-2,295	
Debt issuance costs	7.14	-1		-	
Interest paid		-112		-107	
Proceeds from capital contribution from equity holders of the company	7.12	-		300	
Dividends paid to equity holders of the company	7.12	-59		-60	
Proceeds from issue of hybrid securities	7.12	3		-	
Distribution on hybrid securities	7.12	-33		-33	
Proceeds from sale to non-controlling interests	7.13	16		80	
Proceeds from capital contributions by non-controlling interests	7.13	92		101	
Net cash flows from financing activities			-430		1,245
Net change in cash and cash equivalents			85		-824
Cash and cash equivalents at 31 December	7.10	546		461	
Cash and cash equivalents at 1 January	7.10	461		1,285	
			85		-824

Notes to the consolidated financial statements

1. Corporate information

1.1 General

The consolidated financial statements of TenneT Holding B.V. and its subsidiaries (hereafter referred to as 'TenneT' or 'the Group') for the year ended 31 December 2013 were prepared by the Executive Board and authorised for issue in accordance with a resolution of the Supervisory Board on 10 March 2014.

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

As a TSO, TenneT's principal tasks are (1) to provide electricity transmission services, by constructing and maintaining a robust high-voltage grid, (2) to provide system services, by maintaining the balance between supply and demand of electricity on a continuous base and (3) to facilitate a well functioning electricity market.

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

In addition to its regulated activities, TenneT has a limited number of non-regulated activities, including the auctioning of cross-border electricity transmission capacity and the development and management of electricity connections to other countries (interconnectors). Furthermore, TenneT holds interests in a number of Northwest European energy exchanges. These unregulated activities are the direct responsibility of TenneT Holding B.V. and are performed to support the electricity market and ensure a smooth and efficient operation. As an ancillary activity, TenneT manages certain infrastructure which support equipment to send and receive broadcasting and telecom signals.

As at 31 December 2013, The State of the Netherlands holds the entire issued share capital of TenneT Holding B.V. The head office and legal seat of the Group is located in Arnhem, the Netherlands. TenneT TSO GmbH's main office is located in Bayreuth, Germany.

1.2 Main changes in the Group structure

Split off and sale of APX gas activities

In March 2013 the gas activities of APX Holding B.V. were split off into a new entity Endex B.V. Subsequently, the Group sold its interest in Endex B.V. for a EUR 28 million cash consideration plus 15% of additional shares in APX Holding B.V. As a result TenneT's shareholding in APX Holding B.V. increased from 56% to 71%. For further details of this transaction reference is made to note 7.11.

Sale of a non-controlling interest to Mitsubishi Corporation

In April 2013 TenneT sold a 63% economic interest and representing a 49% voting interest in TenneT Offshore 8. Beteiligungsgesellschaft mbH to Diamond Germany 2. Transmission GmbH, a subsidiary of Mitsubishi Corporation. TenneT retained the power to control in TenneT Offshore 8. Beteiligungsgesellschaft mbH. Reference is made to note 7.13 for further details of this transaction.

2. Basis of preparation

2.1 General basis for preparation

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union and with Part 9, Book 2 of the Netherlands Civil Code.

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

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

2.2 Basis for consolidation

The consolidated financial statements comprise the financial statements of the TenneT Holding B.V. and its subsidiaries as at 31 December 2013.

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

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group ceases to have control over a subsidiary, it derecognises the assets (including goodwill) and liabilities of the subsidiary, any non-controlling interest and the cumulative translation differences are recorded in equity. Furthermore, the Group recognises the fair value of the consideration received, the fair value of any investment retained, and any surplus or deficit in profit or loss.

The following legal entities are included in the consolidation of TenneT Holding B.V.:

Subsidiary	Legal Seat	Country	Voting interest		Economic interest	
			2013	2012	2013	
APX Balancing B.V.	Amsterdam	Netherlands	71%	56%	71%	
APX Clearing B.V.	Amsterdam	Netherlands	71%	56%	71%	
APX Derivatives B.V.	Amsterdam	Netherlands	-	56%	-	
APX Holding B.V.	Amsterdam	Netherlands	71%	56%	71%	
APX Power B.V.	Amsterdam	Netherlands	71%	56%	71%	
APX Shipping B.V.	Amsterdam	Netherlands	71%	-	71%	
APX Staffing B.V.	Amsterdam	Netherlands	71%	56%	71%	
B.V. Transportnet Zuid-Holland	Voorburg	Netherlands	100%	100%	100%	*
CertiQ B.V.	Arnhem	Netherlands	100%	100%	100%	
Duvekot Rentmeesters B.V.	Bathmen	Netherlands	100%	100%	100%	
HS Netten Zeeland B.V.	Middelburg	Netherlands	100%	100%	100%	*
Nadine Netwerk B.V.	Arnhem	Netherlands	100%	100%	100%	*
NLink International B.V.	Arnhem	Netherlands	100%	100%	100%	*
NOVEC B.V.	The Hague	Netherlands	100%	100%	100%	
Omroepmasten B.V.	Vianen	Netherlands	100%	100%	100%	
Saranne B.V.	Arnhem	Netherlands	100%	100%	100%	*
Stichting Beheer Doelgelden Landelijk Hoogspanningsnet	Arnhem	Netherlands	100%	100%	N/A	
TenneT Blue B.V.	Arnhem	Netherlands	100%	100%	100%	*
TenneT Duitsland Coöperatief U.A.	Arnhem	Netherlands	100%	100%	100%	*
TenneT Orange B.V.	Arnhem	Netherlands	100%	100%	100%	
TenneT TSO B.V.	Arnhem	Netherlands	100%	100%	100%	
TenneT TSO Duitsland B.V.	Arnhem	Netherlands	100%	100%	100%	*
TenneT TSO E B.V.	Arnhem	Netherlands	100%	100%	100%	*
TransTenneT B.V.	Arnhem	Netherlands	100%	100%	100%	*
DC Netz Beteiligungs GmbH	Bayreuth	Germany	100%	100%	100%	
DC Netz BorWin3 GmbH	Bayreuth	Germany	100%	100%	100%	
DC Netz BorWin4 GmbH	Bayreuth	Germany	100%	100%	100%	
DC Netz BorWin5 GmbH	Bayreuth	Germany	100%	-	100%	
DC Netz DoWin3 GmbH	Bayreuth	Germany	100%	100%	100%	
DC Netz DoWin4 GmbH	Bayreuth	Germany	100%	-	100%	
DC Netz GmbH	Bayreuth	Germany	100%	100%	100%	
DC Netz HelWin1 GmbH	Bayreuth	Germany	100%	100%	100%	
DC Netz SylWin2 GmbH	Bayreuth	Germany	100%	-	100%	
TenneT GmbH & Co. KG	Bayreuth	Germany	100%	100%	100%	**
TenneT Offshore 1. Beteiligungsgesellschaft mbH	Bayreuth	Germany	51%	51%	31%	
TenneT Offshore 2. Beteiligungsgesellschaft mbH	Bayreuth	Germany	51%	51%	31%	
TenneT Offshore 4. Beteiligungsgesellschaft mbH	Bayreuth	Germany	100%	100%	100%	
TenneT Offshore 7. Beteiligungsgesellschaft mbH	Bayreuth	Germany	100%	100%	100%	
TenneT Offshore 8. Beteiligungsgesellschaft mbH	Bayreuth	Germany	51%	100%	37%	
TenneT Offshore 9. Beteiligungsgesellschaft mbH	Bayreuth	Germany	51%	100%	37%	
TenneT Offshore GmbH	Bayreuth	Germany	100%	100%	100%	
TenneT TSO GmbH	Bayreuth	Germany	100%	100%	100%	
TenneT Verwaltungs GmbH	Bayreuth	Germany	100%	100%	100%	
APX Commodities Ltd.	Nottingham	United Kingdom	71%	56%	71%	
Belpex S.A.	Brussels	Belgium	71%	56%	71%	

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

** This company, which has been consolidated in these financial statements, has opted for the exemption under Section 264b of the German Commercial Code regarding the publication of the management report.

The consolidation includes Stichting Beheer Doelgelden Landelijk Hoogspanningsnet (hereafter 'the Foundation'). The Foundation temporarily manages the funds arising from maintenance of the energy balance and auctioning of capacity by TenneT TSO B.V. TenneT can exercise direct control over its management and financial- and operational policies, consequently the Foundation is included in the consolidation of the Group.

2.3 Significant accounting judgments, estimates and assumptions

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

Areas of judgment and estimates that need to be made by management relate to the useful lives of non-current assets (notes 7.1 and 7.2), the impairment review of non-current assets (notes 7.1 and 7.2) and the establishment of provisions (note 7.16). Estimates are based on historical quoted market prices, experience and other assumptions that are considered reasonable under the relevant circumstances.

3. Accounting Policies

3.1 Summary of accounting policies applied

Business combinations and goodwill

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

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

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

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

Segmentation and underlying financial information

The financial information is segmented according to the Group's activities. TenneT Holding's Executive Board monitors between the performance from a geographic perspective, in which the Executive Board separately considers the performance of the regulated activities in the Netherlands and in Germany.

TenneT Holding's Executive Board assesses performance and allocates resources based on underlying financial information instead of information reported under IFRS. Consequently, the accounting principles used for the operating segments differ from IFRS, instead underlying financial information is used. This underlying financial information is based on the principle to recognise regulatory assets and liabilities for all of TenneT's regulated activities. This implies that amounts resulting from past events and which are allowed or required to be settled in future tariffs are recorded as an asset or liability, respectively.

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

Reference is made to note 3.2 for a further description of the applied accounting policies for underlying financial information.

Foreign currencies

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

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

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

Distinction between current and non-current

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

Offsetting

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

Revenue recognition*General*

Revenue primarily represents the sales value derived from the connection of general capacity and transmission of energy together with the sales value derived from the system services, maintenance of the energy balance, offshore services and energy exchanges during the year. Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made.

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

Investment contributions

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

Principal-agent transactions

EEG (Erneuerbare-Energien-Gesetz) revenues and expenses should equal, except for the EEG bonus. The revenues are charged based on estimated costs and the proceeds from the sale of electricity at the exchange. Costs include the purchase of energy from suppliers, selling costs of energy at the exchange and other costs such as interest on the EEG bank account balances. Any differences between actual costs and estimated costs will be charged to customers and recognised in the statement of financial position as a receivable or liability. There are final settlements deliveries received from the renewable generators and for the invoiced revenues to the energy suppliers. Price and volume differences are recognised in the calculation of the next EEG surcharge. EEG revenues and EEG expenses are presented net in the statement of income.

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

Revenues and expenses relating to sec. 19 par. 2 Electricity Grid Ordinance (Stromnetzentgeltverordnung, StromNEV) and offshore liability surcharge are presented net in the statement of income because of reasons similar to those applicable to EEG and KWK-G amounts.

TenneT is acting as an agent with respect to the services described above.

Finance income

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

Income taxes

Current income taxes

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the tax authorities. The tax rates and tax laws used to compute these amounts are those that are enacted or substantively enacted, at the reporting date in the countries where the Group operates and generates taxable income.

Deferred tax

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

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

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

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

Tangible fixed assets

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

Depreciation is calculated on a straight-line basis, assuming the useful lives of the various asset types to be as follows:

Estimated useful lives tangible fixed assets	Years
Substations	
Earthing switches, isolating switches, power cut-out switches	20-35
Security and control equipment	10-20
Power transformers	20-35
Capacitor banks	20-35
Telecommunications equipment	10-20
Connections	
Pylons/lines	35-40
Cables (underground)	20-40
Other	
Office buildings	40-50
Office ICT equipment	3-5
Process automation facilities	5
Other company assets	5-10
Land (and its preparation for building) is not subject to depreciation	

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

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

Borrowing costs

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

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

Leases

Leases in which substantially all 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 statement of income 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 asset 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 statement of income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The assets acquired under finance leases are depreciated over the shorter of the useful life of the asset and the lease term.

Intangible assets

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

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

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

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

The useful lives of the various intangible asset types are as follows:

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

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

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

Impairment of non-financial assets

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

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

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

Investments in joint ventures and associates

A joint venture is an arrangement whereby the parties in the arrangement have joint control over the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

An associate is an entity in which the Group has significant influence, but no control. Significant influence is the power to participate in the financial and operating policy decisions of the investee.

Investments in joint ventures and associates are accounted for using the equity method. Under the equity method, the investment in the joint venture/associate is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the investment since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment. The statement of income reflects TenneT's share of the results of operations of the investment. Any change in other comprehensive income of those investees is presented as part of the Group's other comprehensive income. In addition, when there is a change recognised directly in the equity of the investment, TenneT's share of any change is recognised in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the investment are eliminated to the extent of the interest in the investment.

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

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

Financial assets

General

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

Financial assets at fair value through profit or loss

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

Loans and receivables

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

Held-to-maturity investments

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

Available-for-sale investments

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

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

Derivative financial instruments

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

Hedge accounting

TenneT has applied cash flow hedge accounting on interest rate derivatives used as pre-hedges for the EMTN programme. TenneT applied cash flow hedge accounting for these swaps. Changes in fair value of the swaps forming part of an effective hedge have been recognised in the statement of comprehensive income (hedge reserve). The interest rate swaps were sold at the moment the EMTN was contracted in 2010 and 2011 (as at 31 December 2012 and 2013 no interest rates swaps were in place). The hedge reserve in equity will be amortised over the periods the original hedged item is expected to affect profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. The cost is determined using the weighted average cost method. Net realisable value is the estimated selling price in the ordinary course of business, less applicable selling expenses.

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

Cash and cash equivalents

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

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

Non-current assets and liabilities held for sale

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

Financial liabilities

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

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

Financial liabilities at fair value through profit or loss

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

Further reference is also made to the accounting policy on Derivative financial instruments.

Borrowings

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

Provisions*General*

Provisions are recognised when the Group has a legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and when the amount can be reliably estimated. The provisions are measured at the present value of estimated cash flows to settle the obligation, based on expected price levels. The cash flows are discounted at a current pre-tax rate that reflects the risks specific to the liability. The interest unwinding is recognised in the statement of income as a finance cost.

The estimated future costs are reviewed annually and adjusted as appropriate. Changes in the estimated future costs or in the discount rate applied are recognised in the statement of income.

Environmental management provisions

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

Decommissioning provisions

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

Personnel provisions

Provisions have been set up to cover the cost of special personnel benefit schemes with liabilities that existed prior to the balance sheet date. The schemes in question are long-service bonus schemes and health insurance premium schemes. The amounts set aside to cover health insurance and bonus schemes have been calculated in accordance with actuarial principles. Any actuarial gains/losses are recognised in the statement of income.

Defined benefit pension plans

The pensions of the majority of the German personnel are accounted for as a defined benefit plan whereas the pensions of the majority of the Dutch personnel are accounted for as a defined contribution plan.

For defined benefit plans, pension costs are determined using the projected-unit-credit method. Re-measurements, comprising of actuarial gains and losses, the effect of the asset ceiling (excluding net interest) and the return on plan assets (excluding net interest), are recognised in other comprehensive income in the period in which they occur. Re-measurements are not reclassified to profit or loss in subsequent periods.

Service costs comprising current service costs and if applicable past-service costs, gains and losses on curtailments and non-routine settlements are recognised as personnel expenses in the consolidated statement of income. Interest is calculated by applying the discount rate to the net defined benefit liability or asset and is recognised as part of the finance result in the statement of income.

Prepaid pension costs relating to defined benefit plans are capitalised only if they lead to refunds to the employer or to reductions in future contributions to the plan by the employer.

Defined contribution pension plans

In the Netherlands the pensions are administered by the ABP Pension Fund, which is a multi-employer scheme. ABP has indicated that it is unable to provide company-specific information of the kind required by IFRS for defined-benefit pension schemes; therefore this scheme is treated as if it were a defined contribution scheme.

Payments to defined contribution plans are charged as an expense in the period to which they relate.

3.2 Accounting policies applied for underlying financial information

As described earlier, the financial information presented in the segment information and board report is based on 'underlying' financial information, which differs from IFRS. The accounting principles applied differ from IFRS with respect to the recognition of regulated assets, regulated liabilities and auctions receipts. No other differences between 'underlying' financial information and IFRS are applicable.

Main requirement for the recognition of regulatory assets/liabilities in 'underlying' financial information is that a current regulatory framework must be in place that includes the future reimbursement/settlement of the respective regulated asset/liability. Consequently, a regulated asset is recognised in 'underlying' financial information for reimbursements of current year expenses in future years. Vice versa, a regulated liability is recognized in 'underlying' financial information for settlements of current year revenues in future tariffs. Taken together, regulatory revenues and expenses are matched with each other during a corresponding reporting period.

Furthermore, auction receipts resulting from auctioning the available capacity on the cross-border connections are recognised as liability in 'underlying' financial information, whereas under IFRS these auction receipts are recognised as revenue. In 'underlying' financial information the auction receipts are initially valued at fair value and subsequently measured at amortised cost using the effective interest method. Investments made out of the auction proceeds are, after approval from the regulator is obtained, classified as investment contributions (presented under 'Liabilities'). An annual amount equal to the depreciation charges, plus a portion of the operating expenses, is released to the statement of income.

3.3 Change in accounting policies

The following new standards and amendments are effective as of 1 January 2013 and impact the consolidated financial statements:

- IAS 1 'Presentation of Items of Other Comprehensive Income – Amendments to IAS 1'
- IAS19 'Employee Benefits (Revised 2011) (IAS 19R)'
- IFRS 13 'Fair value measurement'

Furthermore, the Group decided to early adopt the following new standards and amendments as per 1 January 2013:

- IAS 36 'Recoverable Amount disclosures for Non-Financial Assets – Amendments to IAS 36'
- IFRS 10 'Consolidated financial statements'
- IFRS 11 'Joint arrangements'
- IFRS 12 'Disclosure of interest in other entities'

Several other new standards, amendments and interpretations are effective as of 1 January 2013, which did not impact the consolidated financial statements. As such these are not further described.

IAS 1 'Presentation of Items of Other Comprehensive Income – Amendments to IAS 1'

The amendments to IAS 1 changed the grouping of items presented in other comprehensive income. Items that could be reclassified to profit or loss at a future point in time are presented separately from items that will never be reclassified. The amendment affects presentation only and had no impact on TenneT's financial position or performance.

IAS19 'Employee Benefits (Revised 2011) (IAS 19R)'

IAS 19R includes a number of amendments to the accounting for defined benefit plans. The main amendment eliminates the corridor approach and requires actuarial gains and losses to be recognised in other comprehensive income (OCI) and permanently excluded from profit and loss. This change did not impact TenneT's financial statements since it has never applied the corridor approach.

Other amendments include expected returns on plan assets that are no longer recognised in profit or loss, instead, there is a requirement to recognise interest on the net defined benefit liability (asset) in profit or loss, calculated using the discount rate used to measure the defined benefit obligation, and; new disclosures, such as, quantitative sensitivity disclosures.

The impact on the net pension expense due to the difference in accounting for interest on plan assets was EUR 0.2 million, net of tax, on the equity attributable to the shareholder as per 31 December 2012.

IFRS 13 'Fair value measurement'

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 IFRS. The requirements, which are largely aligned between IFRS 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 IFRS or US GAAP.

The impact of application of IFRS 13 is very limited for the Group since no instruments carried at fair value exist. Additional disclosures where required, as well as the fair value hierarchy are included in note 4.

IAS 36 'Recoverable Amount Disclosures for Non-Financial Assets — Amendments to IAS 36'

The amendments to IAS 36 clarify the disclosure requirements in respect of fair value less costs of disposal. This amendment affects disclosures only and as such will not impact TenneT's financial position or performance.

IFRS 10 'Consolidated financial statements'

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 has reassessed its investments and concluded that this new standard did not impact the consolidation of investments held by the Group both as at 31 December 2012 as well as at 31 December 2013.

IFRS 11 'Joint arrangements'

IFRS 11, 'Joint arrangements' replaces IAS 31 and SIC 13 and distinguishes joint operations and joint ventures. IFRS 11 removes the option to account for jointly controlled entities/joint ventures on the basis of proportionate consolidation. Instead, joint ventures must be accounted for using the equity method. Up to and including 2012 TenneT applied proportionate consolidation to Relined B.V. and BritNed Development Ltd.

The application of this new standard impacts the financial position of the Group by replacing proportionate consolidation of these joint ventures with the equity method. The effects of this change in accounting policy are as follows:

Statement of Income (EUR million)	2012
Decrease in revenue	20
Decrease in operating expenses	20
Net effect on operating profit	-
Effect on finance result	-
Effect on income tax expense	-
Net effect on profit for the period	-

Statement of financial position (EUR million)	2012	1 January, 2012
Decrease in tangible fixed assets	-264	-273
Decrease in intangible fixed assets	-	-1
Increase in investments in joint ventures	282	281
Decrease in account- and other receivables	-59	-14
Decrease in cash and cash equivalents	-17	-4
Net effect on total assets	-58	-11
Decrease in non-current liabilities	-2	-2
Decrease in other liabilities	-56	-9
Net effect on total liabilities	-58	-11
Net effect on equity	-	-

This accounting change had no material impact on the consolidated statement of cash flows.

The effects listed above mainly relate to the Group's 50% share in BritNed Development Ltd. BritNed operates a 1,000 MW, 260 kilometre subsea electricity link between the UK and the Netherlands. This BritNed cable was commissioned in April 2011. The shares in BritNed are indirectly held by TenneT (50%) and National Grid (50%), the UK transmission system operator.

IFRS 12 'Disclosure of interest in other entities'

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 requirements in IFRS 12 are more comprehensive than the previously existing disclosure requirements for subsidiaries. The additional disclosures are included in notes 3.1, 7.3, 7.4 and 7.13.

Other Changes

The classification of financial position items has been reassessed and as a result certain items have been reclassified in the statement of financial position. Originally reported comparative figures have been reclassified in order to conform with current year's presentation.

3.4 IFRS Standards issued but not yet effective

The following new standards, amendments and interpretations are issued but not yet effective or endorsed by the European Union for the financial year beginning 1 January 2013 and are not early adopted:

- IAS 32 'Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32'
- IFRS 9 'Financial instruments'
- 'Novation of Derivates and Continuation of Hedge Accounting – Amendments to IAS 39'

The amendments to IAS 32 are effective for annual periods beginning on or after 1 January 2014 and clarify that rights to offset must not only be legally enforceable in the normal course of business, but must also be enforceable in the event of default and the event of bankruptcy or insolvency of all of the counterparties to the contract, including the reporting entity itself. The amendments also clarify that rights to offset must not be contingent on a future event. The Group is yet to assess the full impact of the amendments.

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments and requires financial assets to be classified into two measurement categories: those measured at fair value and those measured at amortised cost.

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 the full impact of the new standard. The effective date of IFRS 9 is not yet decided upon.

The amendments to IAS 39 are effective for annual periods beginning on or after 1 January 2014 and provide an exception to the requirement to discontinue hedge accounting in certain circumstances in which there is a change in counterparty to a hedging instrument in order to achieve clearing for that instrument. Currently, the Group does not hold any derivative instruments. Consequently, this amendment will not affect TenneT's financial position, performance or disclosures.

4. Financial risk management

4.1 Objectives, policies and capital management

The Group's financial assets derive directly from the operational activities and include loans, (short-term) deposits, account- and other receivables, cash and collateral securities. The Group's financial liabilities are used to finance these operational activities and include borrowings, account- and other payables and collateral securities given by third parties to underwrite trading on energy exchanges and the auctioning of cross-border interconnection capacity.

It is TenneT's policy to minimise the financial risks that are inherent to its operations. The main financial risks recognised within the Group are market risks, credit risk and liquidity risk. The Corporate Treasury department is responsible for managing the Group's financial risks, except for APX. APX conducts its own risk management due to the nature of its activities.

Financial risk management is aimed to safeguard the Group's ability to continue as a going concern while providing an adequate return for its shareholder. As a result, the Group aims to maintain a senior unsecured credit rating of at least A3/A- and to maintain a funds from operations to net debt ratio of at least 8% (based on underlying financial information, refer to note 5). The funds from operations to net debt ratio as per 31 December 2013 was 18.6%.

In order to maintain or adjust the capital structure, the Group may seek additional capital (e.g. through a capital injection by the Shareholder and/or various capital market transactions), adjust dividends paid to its Shareholder or modify its investment plans. 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. 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 Market risks

The Group is exposed to three types of market risk: (i) interest rate risk, (ii) commodity price risk and (iii) risks associated with clearing transactions. TenneT is only exposed to very limited foreign currency risk, as most of its activities take place within the Eurozone.

4.2.1 Interest rate risks

Interest rate risk is defined as the risk that the interest payable on liabilities exceeds the interest receivable by TenneT under the prevailing regulatory system. The Dutch Office of Energy Regulation has set the relevant interest rate at 3.85% for the next regulatory period (2014-2016). In Germany, the actual rate of interest is compensated up to a predefined maximum on a rolling basis.

To control the Group's interest rate risk, it is TenneT's policy to ensure that the majority of its loan portfolio is based on fixed interest. TenneT uses scenarios to analyse its interest rate exposure. A theoretical increase or decrease in interest rates of 200 basis points could create an increase or decrease of EUR 1 million in the net interest costs (2012: EUR 16 million). There is limited interest risk since the majority of the portfolio is based on fixed interest rates.

4.2.2 Commodity price risk

Within the Group, APX is exposed to commodity price risk. APX acts as counterparty for the contracts that are established on each of the exchanges it operates. As central counterparty, APX does not assume a net position in the energy markets, since it always assumes an equal buying and selling position. In relation to the delivery of the physical position, APX faces the risk that the seller does not deliver. To meet the delivery towards the buyer, APX would need to replace the position in the market and would be exposed to a market price risk.

APX's policy is to mitigate this risk by operating a margining framework and holding collateral from members. In addition, where APX faces market risk, a default fund is used to mutualise any losses in excess of collateral across the membership. Members contribute to a default fund and in the event that individual member collateral is not sufficient, the default contributions of other members can be used to cover the remaining amount.

4.2.3 Risks associated with clearing transactions

In both the Netherlands as well as in Germany, TenneT is 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 charged for any imbalances attributable to them. Any surplus is deducted from the tariffs for system services. For certain situations, securities in the form of bank guarantees and collaterals are held as protection against default by the parties with programme responsibility.

The management of energy exchanges, the execution of the renewable energy act in Germany and the maintenance of the energy balance between supply and demand all require TenneT to handle large cash flows. The company's policies are aimed at minimising the risks associated with the clearing transactions of these cash flows.

4.3 Fair value analysis

As at 31 December 2013, the Group did not hold any instruments that are carried at fair value. In 2012, the Group had a USD-EUR foreign-exchange swap, which matured in January 2013.

In calculating fair values of assets and liabilities, TenneT uses the following hierarchy by valuation technique:

- Level 1: Measurement based on quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: Measurement based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices)
- Level 3: Measurement based on inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

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

		Carrying amount		Fair value		
(EUR million)	Notes	2013	2012	2013	2012	Hierarchy
Financial Assets						
Loans and receivables:						
- Account- and other receivables	7.8	1,849	1,973	1,849	1,973	Level 3
- (Other) Financial assets	7.6, 7.9, 7.11	70	679	70	679	Level 3
Cash and cash equivalents	7.10	550	79	550	79	Level 3
		2,469	2,731	2,469	2,731	
Financial Liabilities						
Borrowings:						
- Borrowings – bonds	7.14	2,702	2,207	2,924	2,503	Level 1
- Borrowings – other	7.14	512	1,349	551	1,417	Level 2
- Account- and other payables	7.18	2,368	1,523	2,368	1,523	Level 3
- Other financial liabilities	7.11, 7.19	423	651	423	651	Level 3
Financial liabilities at fair value through profit or loss		-	1	-	1	Level 2
		6,005	5,731	6,266	6,095	

The Group concluded that the fair value of the loans and receivables, cash and cash equivalents, account- and other payables and other financial liabilities approximate their carrying amounts due to the short-term maturities of these instruments. The fair value of the level 2 borrowings are based on discounted cash flows. There have been no transfers between the fair value hierarchy levels.

4.4 Credit risk

Credit risk is defined as the risk that a counterparty will not meet its obligations, leading to a financial loss for the Group. The credit risk on trade receivables is very limited as all credit risks are compensated in future tariffs. Furthermore, TenneT runs no credit risk on its EEG receivables, nevertheless TenneT applies a significant credit risk management. 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 users. If EEG receivables are not paid by the energy users, the related costs are taken into account in the immediately following calculation of the EEG surcharge. As a result, there is no credit risk on the side of TenneT TSO GmbH regarding EEG receivables.

Credit risks arise from TenneT's transactions and positions with financial institutions. As at 31 December 2013, the maximum credit risk amounted to EUR 120 million (2012: EUR 49 million). The maximum exposure increased in 2013 due to an increase in cash and cash equivalents compared to 2012.

TenneT has concentration limits in place when funds are placed on deposit or when financial derivatives are arranged. TenneT's policy is that a counterparty must have an 'A-' credit rating or higher. As at 31 December 2013 the Group had deposited EUR 51 million with third parties (2012: EUR 33 million).

Within the Group, APX is exposed to a concentration of credit risk. The top five debtors of APX make up 49% of their total position as at 31 December 2013 (2012: 38%). The debtors of APX are included in note 7.8 as 'accounts receivable in connection with energy exchange connections'.

4.5 Liquidity risk

Liquidity risk is defined as the risk that the Group cannot meet its short-term financial obligations. 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 forward-looking basis. This means that the sum of (i) cash and cash equivalents, (ii) undrawn committed credit facilities and (iii) 12-month net cash flow from operating activities should be sufficient to meet the expected aggregate of scheduled debt repayments and investments in fixed assets over the succeeding 12 months. This requirement was met throughout 2013 and 2012.

The following maturity schedule presents TenneT's financial obligations on a contractual non-discounted basis:

(EUR million)	Notes	<1 month	1 to 3 months	3 to 12 months	1 to 5 years	Beyond 5 years	Total
As at 31 December 2013							
Borrowings	7.14	3	83	100	1,488	2,463	4,137
Account- and other payables	7.18	2,368	-	-	-	-	2,368
Other financial liabilities	7.19	423	-	-	-	-	423
Other liabilities	7.20	371	-	-	-	-	371
		3,165	83	100	1,488	2,463	7,299
As at 31 December 2012							
Borrowings	7.14	294	349	355	966	2,546	4,510
Account- and other payables	7.11, 7.18	1,523	-	-	-	-	1,523
Other financial liabilities	7.11, 7.19	658	-	-	-	-	658
Other liabilities	7.20	166	-	-	-	-	166
		2,641	349	355	966	2,546	6,857

In order to minimise its exposure to liquidity risks, TenneT has committed and uncommitted credit facilities at its disposal to accommodate any fluctuations. The scope of these credit facilities is such that any adverse financial developments and events can be accommodated and continuation of day-to-day operations is ensured. The terms and conditions of these credit facilities include negative pledge and pari passu clauses. No security has been provided. The facilities all have floating-rate interest conditions.

TenneT has EUR 1,625 million of committed revolving credit facilities at its disposal to refinance possible short-term debts. On 31 December 2013 these facilities were undrawn. The terms of these committed revolving credit facilities are respectively August 2018 (EUR 1,125 million) and November 2015 (EUR 500 million).

In addition, TenneT has a short-term credit facility amounting to EUR 545 million, of which no amounts were drawn as at 31 December 2013. Furthermore TenneT signed a EUR 150 million and a EUR 500 million long term loan agreement with the European Investment Bank ("EIB") in July and December 2013 respectively. On 31 December 2013, these EIB facilities were undrawn.

TenneT expects to meet the obligations for the coming year with (i) the current cash and cash equivalents, (ii) funds from operations and (iii) unused credit facilities. TenneT expects to meet obligations for the years thereafter through various capital market transactions and to manage future refinancing risk by spreading the tenors of new financing arrangements.

TenneT had diversified funding sources by means of its EMTN programme and CP programme. Both programmes significantly reduce the company's dependency on the banking sector.

5. Segment reporting

For management information purposes TenneT's Executive Board considers the performance of its activities in the Netherlands and in Germany separately. Segment performance is evaluated based on earnings before interest and tax (EBIT). Financing activities (including finance income and expense) and resulting income taxes are managed on a Group basis and are not allocated to the segments. Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

The accounting principles used for the operating segments differ from IFRS, instead underlying financial information is used. Underlying information involves the matching of regulatory revenues and expenses with each other during a corresponding reporting period. The underlying accounting principles are further set out in section 3.1.

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

5.1 Segment information

	TSO Netherlands	TSO Germany	Total Segments	Adjustments and eliminations	Consolidated Underlying Information
2013 (EUR million)					
Assets	3,765	9,029	12,794	-1,231	11,563
Liabilities	2,448	5,651	8,099	871	8,970
Equity	1,317	3,378	4,695	-2,102	2,593
Equity and liabilities	3,765	9,029	12,794	-1,231	11,563
Revenue	643	1,589	2,232	11	2,243
Depreciation and amortisation	132	116	248	7	255
Other costs	362	1,036	1,398	-30	1,368
EBIT	149	437	586	34	620
Finance result and income tax expense					263
Profit for the period					357

	TSO Netherlands	TSO Germany	Total Segments	Adjustments and eliminations	Consolidated Underlying Information
2012 (EUR million)					
Assets	4,155	6,570	10,725	-441	10,284
Liabilities	2,900	3,850	6,750	1,313	8,063
Equity	1,255	2,720	3,975	-1,754	2,221
Equity and liabilities	4,155	6,570	10,725	-441	10,284
Revenue	626	1,106	1,732	37	1,769
Depreciation and amortisation	132	103	235	1	236
Other costs	376	769	1,145	25	1,170
EBIT	118	234	352	11	363
Finance result and income tax expense					183
Profit for the period					180

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

5.2 Reconciliation of segment information to IFRS Group figures

Reconciliation of profit (EUR million)	2013	2012
Underlying segment EBIT for the year	586	352
Adjustments to underlying financial information	184	-25
EBIT from other non TSO subsidiaries	4	16
Gain on sale of subsidiary	25	-
Share in profit of joint ventures and associates	15	2
Elimination of intercompany transactions	-10	-9
IFRS Group operating profit	804	336
Finance result	-110	-100
Income tax expense	-190	-56
IFRS Group profit for the year	504	180

Reconciliation of assets (EUR million)	2013	2012
Underlying segment assets as at 31 December	12,794	10,725
Regulatory assets in underlying financial information	-253	-287
Investments in joint ventures and associates	298	301
Deferred tax assets	-1	-24
Income tax receivable	-2	34
Cash and cash equivalents	120	38
Assets classified as held for sale	-	678
Assets APX Holding B.V.	613	-
Elimination and adjustments of intercompany balances	-2,282	-1,504
Other	16	36
IFRS Group assets as at 31 December	11,303	9,997

Reconciliation of liabilities (EUR million)	2013	2012
Underlying segment liabilities as at 31 December	8,099	6,750
Regulatory liabilities in underlying financial information	-1,022	-907
Borrowings	3,214	3,556
Deferred tax liability	9	-21
Income tax payable	22	-
Interest payable	84	83
Bank overdrafts	4	-
Liabilities classified as held for sale	-	634
Liabilities APX Holding B.V.	585	-
Eliminations and adjustments of intercompany balances	-3,054	-2,957
Other	2	18
IFRS Group liabilities as at 31 December	7,943	7,156

5.3 Adjustments for regulatory assets and liabilities

The adjustments for regulatory assets and liabilities mainly consist of specific assets and liabilities that are recorded in the underlying financial information. In addition, the measurement of tangible fixed assets differs in the IFRS reported figures compared to the underlying financial information. Resulting from the adjustments for regulatory assets and liabilities, the deferred tax balances in the underlying financial information differ from the deferred tax balances as included in the IFRS reported figures.

The regulatory assets and liabilities included in the underlying information are as follows:

(EUR million)	Regulatory assets			Regulatory liabilities					Total regulatory liabilities	Net Equity effect
	To be settled in tariffs	Difference in tangible fixed assets	Total regulatory assets	Auction receipts	Investment contributions	To be settled in tariffs	Maintenance of the energy balance	Effect on Deferred Tax liability		
At 1 January 2012	15	193	208	529	324	156	29	-210	828	-620
Addition	217	-	217	185	2	105	74	-	366	-149
Utilisation	-2	-16	-18	-35	-14	-196	-63	-	-308	290
Imputed interest	-	-	-	5	1	1	-	-	7	-7
Impairment reversal	-	-120	-120	-	-	-	-	-	-	-120
Net tax movement	-	-	-	-	-	-	-	14	14	-14
At 31 December 2012	230	57	287	684	313	66	40	-196	907	-620
Addition	-84	-	-84	221	-	-91	72	-	202	-286
Utilisation	48	-4	44	-19	-11	40	-58	-	-48	92
Imputed interest	6	-	6	18	-	8	-	-	26	-20
Net tax movement	-	-	-	-	-	-	-	-65	-65	65
At 31 December 2013	200	53	253	904	302	23	54	-261	1,022	-769

To be settled in tariffs

Revenue surpluses and deficits resulting from differences between expected (ex ante) and realised (ex post) electricity transmission volumes are incorporated in tariffs of subsequent year(s). In the underlying financial information these surpluses and deficits are recorded in the statement of financial position as 'to be settled in tariffs'.

Difference in tangible fixed assets

The difference in measurement of tangible fixed assets relates on the one hand to the impairment reversal under IFRS related to TSO Netherlands in 2012 and on the other hand to step-up recorded in the underlying tangible fixed assets as part of the purchase price allocation of the Transpower acquisition in 2010. This step-up included the recognition of regulatory liabilities for an equal amount.

Auction receipts & investment contributions

Auction receipts result from auctioning the available transmission capacity on cross-border connections. The resulting receipts are not at TenneT's free disposal. In underlying financial information, auction receipts are initially valued at fair value and subsequently measured at amortised cost using the effective interest method. Auction receipts are either to be used as reduction of future tariffs or to finance investments in new cross-border interconnections.

Investments made using auction proceeds are, after approval from the regulator is obtained, classified as investment contributions included under 'Liabilities'. A periodic amount equal to the depreciation charges, plus a portion of the operating expenses, is released to the statement of income.

Under IFRS auction receipts are recognised as revenue immediately.

Maintenance of the energy balance

As administrator of the high-voltage grid, TenneT in the Netherlands receives funds from performing certain statutory duties, such as the maintenance of the energy balance. The proceeds from these activities (i.e. imbalance settlements) may only be used 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. Consequently, these amounts are in the underlying financial information recorded as liability in the statement of financial position.

6. Items of the consolidated statement of income

6.1 Revenue

Revenue can be broken down as follows:

(EUR million)	2013	2012
Connection and transmission services	1,291	850
System services	202	184
Operation of energy exchanges	269	190
Maintenance of energy balance	185	168
Offshore services	399	131
Other	83	106
Total	2,429	1,629

Connection, transmission and system services

The revenue from connection, transmission and system services is to a large extent regulated by the Office of Energy Regulation in the Netherlands and by the BNetzA in Germany. The revenue from connection and transmission services includes the revenue from services provided to regional grid operators and industrial clients (resolution of transmission restrictions and reactive power management).

Revenue includes an assessment of unbilled connection and transmission services supplied to customers for the month December. This assessment is based on historical consumption.

Operation of energy exchanges

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

Maintenance of energy balance

This amount includes the revenue from maintenance of the energy balance between supply and demand, such as imbalance settlements.

Offshore services

In accordance with German law TenneT charges through approximately 70% of the offshore related costs to the other German TSOs (so-called 'horizontal balancing'). The revenue arising from this charge-through is classified as 'offshore services'.

6.2 Operating expenses

6.2.1 Energy and capacity expenses

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

(EUR million)	2013	2012
System services	434	413
Connection and transmission services	198	194
Maintenance of energy balance	152	146
Other	2	2
Total	786	755

System services

The expenditure associated with system services involves the purchase of regulating and reserve capacity, black-start facilities and emergency capacity. For Germany, system and transmission expenses include the costs for operating the grid.

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

This amount comprises the costs from maintenance of the balance between supply and demand of electricity.

6.2.2 Transmission grid and system expenses

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

(EUR million)	2013	2012
Costs of maintaining and operating transmission grids	200	134
Systems for primary operating processes	-	6
Total	200	140

6.2.3 Personnel expenses

Personnel expenses can be broken down as follows:

(EUR million)	2013	2012
Salaries	180	160
Social security contributions	23	19
Pension charges defined benefit plans	7	6
Pension charges other plans	13	10
Other personnel expenses	6	10
Capitalised costs for tangible fixed assets	-65	-55
Total	164	150

In 2013, the average workforce amounted to 2,391 FTEs (2012: 2,212 FTEs), of whom to 1,211 FTEs were employed in the Netherlands (2012: 1,190 FTEs). The social security contributions include an amount of EUR 0.1 million for the legally imposed crisis levy in the Netherlands (2012: EUR 0.1 million).

Key management remuneration

The members of the Executive Board and Supervisory Board are regarded as key management.

The remuneration paid to members of the Executive Board of the company is summarised below.

(EUR thousand)	Fixed remuneration	Variable remuneration	Pension contributions	Total
2013	1,181	427	469	2,077
2012	1,097	427	430	1,954

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

The remuneration of the Supervisory Board was as follows:

(EUR thousand)	Fixed remuneration	Committee fee	Total
2013	111	43	154
2012	106	42	148

6.2.4 Other operating expenses

Other operating expenses can be broken down as follows:

(EUR million)	2013	2012
Accommodation and office expenses	55	52
Consultancy expenses	18	19
Hiring of temporary personnel	24	17
Travel and subsistence expenses	14	13
Other operating expenses	154	49
Total	265	150

The majority of the increase in the other operating expenses relates to the increased provision potential claims in connection with offshore activities in Germany. For further details reference is made to note 7.16.

Independent auditor's fees are classified under 'Other operating expenses'. This concerns the fees charged by Ernst & Young Accountants LLP in 2013 and PricewaterhouseCoopers Accountants N.V. in 2012. These auditor's fees are as follows:

(EUR thousand)	2013	2012
Audit of the financial statements	1,090	1,612
Other assurance services	119	1,241
Total assurance services	1,209	2,853
Tax consultancy	-	229
Other services	89	140
Total other services	89	369
Total auditor's fees	1,298	3,222

6.2.5 Other losses/(gains)-net

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

(EUR million)	2013	2012
Gain on disposal of subsidiary	-25	-
Gain on sale of telecom pylons	-	-8
Other	-1	-4
Total	-26	-12

In March 2013 the gas activities of APX were split off into a new entity Endex B.V. Subsequently, the Group sold its interest in Endex B.V. which resulted in a EUR 25 million gain. For further details of this transaction reference is made to note 7.11.

6.3 Finance income and expenses

The finance income of EUR 13 million (2012: EUR 18 million) mainly relates to interest income from third parties, tax authorities and to the amortisation of the hedging reserve. The finance expenses can be broken down as follows:

(EUR million)	2013	2012
Interest on borrowings and credit facilities	115	110
Interest on assets under construction	-15	-13
Other interest expenses	13	11
Interest on provisions	7	6
Interest on defined benefit pensions	3	4
Finance expenses	123	118

For the effective rate of interest on assets under construction reference is made to note 7.1.

6.4 Net income and earnings per share

Net income 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.

The earnings per share has been calculated by dividing the profit for the year attributable to equity holders after adjustment for the distribution on hybrid securities, by the weighted average number of ordinary shares in issue during the year.

The following reflects the income and share data used in the net income and basic and diluted earnings per share computations:

(EUR million)	2013	2012
Profit for the year attributable to equity holders of the company	426	177
Allocation to hybrid securities	-33	-33
Tax effect on allocation to hybrid securities	8	8
Profit for the year attributable to equity holders of the company adjusted for the allocation to hybrid securities	401	152
Weighted average number of ordinary shares in issue (in thousands)	200	200

7. Items of the consolidated statement of financial position

7.1 Tangible fixed assets

(EUR million)	High-voltage substations	High-voltage connections	Other assets	Assets under construction	Total
Cost					
At 1 January 2012	2,109	2,146	317	1,584	6,156
Additions	96	31	29	1,776	1,932
Transfers	192	100	-28	-264	-
Transfer to intangible assets	-	-	-	-16	-16
Disposals	-16	-5	-20	-	-41
At 31 December 2012	2,381	2,272	298	3,080	8,031
Additions	68	59	11	1,747	1,885
Transfers	50	212	43	-305	-
Transfer to intangible assets	-	-	-	-14	-14
Transfer from assets held for sale (note 7.11)	-	-	4	-	4
Disposals	-31	-14	-2	-	-47
At 31 December 2013	2,468	2,529	354	4,508	9,859
Depreciation and impairment					
At 1 January 2012	605	537	93	-	1,235
Depreciation for the year	97	94	9	-	200
Impairment	-	-	9	-	9
Impairment reversal	-50	-70	-	-	-120
Disposals	-16	-2	-19	-	-37
At 31 December 2012	636	559	92	-	1,287
Depreciation for the year	103	100	18	-	221
Transfer	-20	20	-	-	-
Transfer from assets held for sale (note 7.11)	-	-	2	-	2
Disposals	-29	-11	-	-	-40
At 31 December 2013	690	668	112	-	1,470
Net book value:					
At 1 January 2012	1,504	1,609	224	1,584	4,921
At 31 December 2012	1,745	1,713	206	3,080	6,744
At 31 December 2013	1,778	1,861	242	4,508	8,389

High-voltage substations include transformers. High-voltage connections consist of overhead and underground connections. Land surrounding its high-voltage pylons and cables is not owned by the Group. Other tangible fixed assets consist of office buildings, office ICT equipment and other company assets. In other tangible fixed assets an amount of EUR 8 million is included relating to offices that are currently not in use.

Capitalised borrowing costs

The amount of borrowing costs capitalised during the year ended 31 December 2013 was EUR 15 million (2012: EUR 13 million). The effective interest rate used to determine the amount of borrowing costs eligible for capitalisation was 3.8% (2012: 3.7%).

Contractual capital commitments

Reference is made to note 8.1.1.

Impairment

Management concluded that the sixth method decision for the next regulatory period in the Netherlands (2014-2016) serves as an indicator for impairment of the TSO Netherlands CGU. Consequently, management performed an impairment test on this CGU. The recoverable amount was determined based on a value in use calculation using cash flow projections from the Company's business plan. The pre-tax discount rate applied to cash flow projections was 5.7%. As a result of this analysis, management concluded that no impairment loss was to be recognised. Furthermore, management concluded that a reasonably possible change in the assumptions would not result in an impairment.

For the impairment testing done on the TSO Germany CGU reference is made to note 7.2.

7.2 Intangible assets

(EUR million)	Goodwill	Software	Customer contracts	Other intangible assets	Intangible assets under construction	Total
Cost						
At 1 January 2012	25	79	64	17	3	188
Additions	1	3	-	-	-	4
Transfers	-	18	-	-	-18	-
Transfer from tangible fixed assets	-	-	-	-	16	16
At 31 December 2012	26	100	64	17	1	208
Additions	-	3	-	-	-	3
Transfers	-	14	-	-	-14	-
Transfer from tangible fixed assets	-	-	-	-	14	14
Transfer from assets held for sale (note 7.11)	13	-	-	20	-	33
At 31 December 2013	39	117	64	37	1	258
Depreciation and impairment						
At 1 January 2012	-	49	13	5	-	67
Amortisation for the year	-	19	5	-	-	24
At 31 December 2012	-	68	18	5	-	91
Amortisation for the year	-	19	5	2	-	26
Transfer from assets held for sale (note 7.11)	2	-	-	9	-	11
At 31 December 2013	2	87	23	16	-	128
Net book value:						
At 1 January 2012	25	30	51	12	3	121
At 31 December 2012	26	32	46	12	1	117
At 31 December 2013	37	30	41	21	1	130

Impairment testing of goodwill

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

(EUR million)	2013	2012
TSO Netherlands	3	3
TSO Germany	20	20
Other	14	3
Total goodwill	37	26

TSO Germany

The recoverable amount of the TSO Germany CGU has been determined based on a value in use calculation using cash flow projections from the business plan. The pre-tax discount rate applied to cash flow projections was 6.6% (2012: 6.6%) and cash flows beyond the five-year period were estimated on the basis of regulatory allowed returns and invested capital. Management believes that these cash flows can be determined reliably and give an appropriate reflection of the CGUs cash flow generating potential. It was concluded that the recoverable amount was significantly in excess of the carrying value. As a result of this analysis, management concluded that no impairment loss was to be recognised.

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

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

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

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

The German regulatory regime prescribes regulatory periods of 5 years and is applicable for the period 2014-2018.

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

- The target debt-to-capital ratio has a significant impact on the recoverable amount. In the calculations the debt-to-capital ratio was capped at 50%. Without such a leverage cap, the recoverable amount would significantly increase. A reduction in the debt-to-capital ratio from 50% to 40% would result in a reduction of the recoverable amount of approximately EUR 855 million. Despite this reduction, the recoverable amount would still be in excess of the carrying value.
- Relatively small changes in the cost of equity, which is reflected in the discount rate, result in significant changes in the recoverable amount. An increase in the weighted average cost of capital (WACC) of 10 basis points would result in a reduction of the recoverable amount of approximately EUR 259 million.
- Changes in the regulatory regime, especially when the regulator would introduce a regulatory return on imputed equity that is lower than the required return on equity on a stand-alone basis for an investment with a comparable risk profile, would have a significant impact on the recoverable amount. Management expects that in the long run, the regulator will follow market rates for equity of TSOs and that such a difference is unlikely to remain for an extended period.

Other

The majority of the other goodwill relates to APX and was recognized based on the acquisition of the Dutch spot market activities in May 2001 and the acquisition of the Belpex business in October 2010. The carrying amount of these intangible assets has been tested for impairment under the following assumptions:

- Discount rate of 10% (2012: 10%).
- Average EBITDA margin of 28% (2012: 32%)
- 5 year revenue growth of -2% (2012: 10%)

The recoverable amounts attributable to this CGU exceeded the carrying amount, providing sufficient headroom for deviations in the underlying assumptions.

7.3 Investments in joint ventures

The Group has 50% shares in BritNed Development Ltd. (legal seat: Arnhem, the Netherlands), Relined B.V., Reddyn B.V., DC Nordseekabel Beteiligungs GmbH, DC Nordseekabel Management GmbH and DC Nordseekabel GmbH & Co. KG. These investments are classified as joint ventures, for which the Group concluded that only the investment in BritNed Development Ltd. is considered material. Other joint ventures are considered immaterial and are therefore disclosed on an aggregated level.

Summarised financial information of these joint ventures and reconciliation with the carrying amount of the investment in the consolidated financial statements are as follows:

Statement of financial position (EUR million)	2013			2012		
	BritNed	Other	Total	BritNed	Other	Total
Non-current assets	508	20	515	520	8	528
Cash and cash equivalents	48	6	54	32	2	34
All other current assets	17	2	19	118	-	118
Non-current financial liabilities	-	-	-	-	2	2
Other non-current liabilities	17	9	13	2	-	2
Current financial liabilities	-	-	-	-	-	-
Other current liabilities	5	12	17	106	6	112
Equity	551	7	558	562	2	564
<i>Ownership TenneT</i>	<i>50%</i>	<i>50%</i>		<i>50%</i>	<i>50%</i>	
Carrying amount of the investment	276	4	280	281	1	282

Statement of income (EUR million)	2013			2012		
	BritNed	Other	Total	BritNed	Other	Total
Revenue	70	5	75	36	4	40
Depreciation and amortisation	16	1	17	18	-	18
Other costs	16	3	19	14	4	18
Operating profit	38	1	39	4	-	4
Finance income and expense	-1	-	-1	-	-	-
Income tax expense	-10	-1	-11	-	-	-
Profit for the year	27	-	27	4	-	4
<i>Ownership TenneT</i>	50%	50%		50%	50%	
Group's share in profit	14	-	14	2	-	2

BritNed has contingent liabilities of EUR 1 million (2012: EUR 1 million). The other joint ventures have contingent liabilities of EUR 2 million (2012: EUR 1 million), relating to Relined B.V. and DC Nordseekabel GmbH & Co. KG.

The joint ventures cannot distribute their profits until they obtain consent from the venture partners. In 2013 TenneT received EUR 20 million dividend from BritNed (2012: nil).

7.4 Investments in associates

Investments in associates mainly consist of a 24.5% interest in Holding des Gestionnaires de Réseaux de Transport d'Électricité S.A.S. (hereafter 'HGRT', legal seat: Paris, France) and a 25% interest in Open Tower Company B.V. (hereafter 'OTC'). In addition, the group holds two immaterial investments in Energie Data Services Nederland (EDSN) B.V. and European Market Coupling Company GmbH (EMCC).

HGRT is legally seated in Paris, France and its sole activity is holding a 53% interest in Powernext S.A.

OTC (legal seat: Vianen, the Netherlands) is a holding company and holds majority interests in four asset companies, being Colonne B.V., Mobile Radio Networks Vehicle B.V., OTC II B.V. and DutchFort B.V. These asset companies mainly operate infrastructure specifically designed for terrestrial communications.

Summarised financial information of these associates and reconciliation with the carrying amount of the investment in the consolidated financial statements are as follows:

Statement of financial position (EUR million)	2013			2012		
	HGRT	OTC	Total	HGRT	OTC	Total
Non-current assets	49	127	176	47	132	179
Current assets	1	6	7	3	5	8
Other non-current liabilities	-	102	102	-	102	102
Current liabilities	-	9	9	-	9	9
Equity	50	22	72	50	26	76
<i>Ownership TenneT</i>	24.5%	25%		24.5%	25%	
Carrying amount of the investment	12	6	18	12	7	19

Statement of income (EUR million)	2013			2012		
	HGRT	OTC	Total	HGRT	OTC	Total
Revenue	-	20	20	-	19	19
Depreciation and amortisation	-	6	6	-	2	2
Other costs	-	5	5	-	9	9
Operating profit	-	9	9	-	8	8
Finance income and (expense)	1	-6	-5	1	-6	-5
Income tax (expense)	-	-1	-1	-	-1	-1
Profit for the year	1	2	3	1	1	2
Ownership TenneT	24.5%	25%		24.5%	25%	
Group's share in profit	-	1	1	-	-	-

In 2013 TenneT did not receive dividends from any of its associates (2012: nil). OTC had EUR 5 million of contingent liabilities as at 31 December 2013 (2012: EUR 3 million).

7.5 Income Tax

The major components of income tax expense are:

Consolidated income statement (EUR million)	2013	2012
<i>Current income tax:</i>		
Current income tax charge	147	16
<i>Deferred tax:</i>		
Relating to origination and reversal of temporary differences	43	40
Income tax expense reported in the income statement	190	56

Consolidated statement of comprehensive income (EUR million)	2013	2012
Effect of re-measurement of defined benefit pensions	-2	9
Other	-	-
Income tax charged directly to other comprehensive income	-2	9

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

(EUR million)	2013	2012
Accounting profit before income tax	694	236
At statutory income tax rate of 25% (2012: 25%)	174	59
Adjustments in respect of deferred taxes	7	-12
Non-deductible interest	2	3
Non-deductible/taxable under participation exemption	-12	-
Non-deductible under German regime ("Vororganschaftliche Mehr- und Minderabführungen")	5	-
Effect of higher tax rate in Germany	14	6
At the effective income tax rate of 27% (2012: 24%)	190	56

Deferred tax relate to the following:

(EUR million)	Statement of financial position		Statement of income	
	2013	2012	2013	2012
Auction receipts	-215	-160	56	25
Investment contributions	-71	-75	-3	-3
Tariffs to be settled	-31	-22	9	-65
Accelerated depreciation for tax purposes	-206	-210	-2	78
Provisions recognised for tax purposes	50	33	-20	16
Hedging reserve	-1	5	1	-11
Receivables and payables	-1	1	-	-
Losses available for offsetting against future taxable income	-	3	-	-
Other	7	11	2	-
Deferred tax expenses/(income)			43	40
Net deferred tax assets/(liabilities)	-468	-414		

The deferred tax is presented in the statement of financial position as follows:

(EUR million)	2013	2012
Deferred tax assets	-	1
Deferred tax liabilities	-468	-415
Deferred tax, net	-468	-414

The movement of the deferred tax position is set out below:

(EUR million)	2013	2012
As at 1 January	-414	-394
Tax expense during the period recognised in profit or loss	-43	-39
Tax income during the period recognised in other comprehensive income	-2	9
Reclassification to current liabilities	-6	10
Reclassification from assets and liabilities held for sale	-3	-
At 31 December	-468	-414

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

The Group does not have any tax loss carry forwards.

7.6 Other financial assets

Other financial assets can be broken down as follows:

(EUR million)	2013	2012
Receivables related parties	8	8
Fees for credit facilities available	4	6
Pension asset (note 7.15)	1	-
Other	4	2
Total	17	16

The receivable from related parties mainly consists of loans granted to MRNV, a 100 % participation of TenneT's associate OTC (refer to note 7.4).

TenneT has committed revolving credit facilities at its disposal. No amounts were outstanding under these facilities as at 31 December 2013 (2012: nil). The fees paid for the credit facility are capitalised and are charged to the statement of income, pro rata the duration of the credit facility.

7.7 Inventories

Inventories consists of spare parts amounting to EUR 8 million (2012: EUR 7 million) and work in progress amounting to EUR 5 million (2012: EUR 3 million).

7.8 Account- and other receivables

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

(EUR million)	2013	2012
Amounts to be invoiced to EEG trade debtors	796	1,222
EEG trade receivables	73	126
Trade receivables	103	70
Receivables in connection with energy exchanges	188	-
Amounts to be invoiced	457	310
VAT receivables	78	193
Interest receivable	4	4
Other	150	48
Total	1,849	1,973

EEG trade debtors and receivables

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

Trade receivables

In respect of the regular trade receivables credit risk is limited since the majority of potential losses

are expected to be compensated in future tariffs. As at 31 December 2013, receivables with an initial value of EUR 16 million (2012: EUR 2 million) were impaired and fully provided for. The movement in the provision for impairment of receivables is as follows:

(EUR million)	2013	2012
At 1 January	4	-
Charge for the year	17	4
Utilised	-	-
Unused amounts reversed	-	-
At 31 December	21	4

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

(EUR million)	Total	Neither past due nor impaired	Past due but not impaired		
			0-30 days	31-60 days	>60 days
2013	103	21	32	6	44
2012	70	15	8	2	45

Further reference is made to section 4 for a description on how the Group analyses and manages credit risk.

Receivables in connection with energy exchanges

Receivables in connection with energy exchanges fully relate to APX Holding B.V. As at 31 December 2012, these receivables were classified as assets held for sale (note 7.11). These receivables are not at the Group's free disposal.

Amounts to be invoiced

In 2013, the amounts to be invoiced includes a receivable relating to sec. 19 par. 2 StromNEV and amounts to be invoiced to TSOs in Germany.

Other receivables

The majority of the other receivables relate to receivables from other German TSOs mainly for costs charged through to other TSOs in relation to connecting offshore wind farms.

7.9 Current financial assets

Current financial assets can be broken down as follows:

(EUR million)	2013	2012
Deposits	51	33
Current part other financial assets	2	2
Total	53	35

The fair value of deposits amounted to EUR 51 million (2012: EUR 33 million), with an average effective interest rate of 0.4% (2012: 0.5%). The fair value of these deposits has been calculated using discounted cash flow valuation techniques, on the basis of the market conditions prevailing on 31 December (including interest accrued).

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

7.10 Cash, cash equivalents and bank overdrafts

Cash and cash equivalents consist of collateral securities, short-term bank deposits and cash at bank (excluding bank overdrafts). The cash, cash equivalents and bank overdrafts can be broken down as follows:

(EUR million)	2013			2012		
	At free disposal	Not at free disposal	Total	At free disposal	Not at free disposal	Total
Collateral securities	-	423	423	-	30	30
Short-term bank deposits	-	-	-	-	-	-
Cash at bank	120	7	127	49	-	49
Cash and cash equivalents	120	430	550	49	30	79
Bank overdrafts	-4	-	-4	-	-	-
Cash and cash equivalents included in assets as held for sale	-	-	-	-	382	382
Total cash and cash equivalents used in cash flow statement	116	430	546	49	412	461

Collateral securities mainly include securities held by APX Holding B.V. (EUR 386 million) in connection with the margining requirements for energy transactions. An identical balance is included in the other financial liabilities. As at 31 December 2012, these balances were included in the assets and liabilities classified as held for sale.

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

For the (undrawn) committed borrowing facilities reference is made to note 7.14.

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

The assets classified as held for sale include certain transformers that the Group expects to sell within one year. The expected fair value less cost of disposal is higher than the carrying value, consequently these assets are valued at their carrying value.

As at 31 December 2012 the assets and liabilities classified as held for sale included APX Holding B.V. (hereafter 'APX'), in which TenneT owned 56%. In March 2013 the gas activities of APX were split off into a new entity Endex B.V. Subsequently, the Group sold its interest in Endex B.V. and APX's

classification as held for sale ceased, remaining APX balances were reclassified to their respective accounts in the statement of financial position.

Endex B.V. was sold for a EUR 28 million cash consideration plus 14.8% of additional shares in APX. The sale resulted in a EUR 25 million gain (note 6.2.5), a decrease of the non-controlling interests of EUR 12 million (note 7.13) and a decrease of retained earnings of EUR 3 million.

7.12 Equity attributable to owners of the company

Paid-up and called-up capital

The company's authorised share capital amounts to EUR 500 million (2012: EUR 500 million), divided into one million shares of EUR 500 each. Of these shares, two hundred thousand shares have been issued and paid-up.

Hedging reserve

The hedging reserve relates to the cumulative result of the sold Forward Starting Interest Rate Swaps (hereafter 'FSIRS'), classified as cash flow hedges, that have been recorded in the Statement of Comprehensive Income and will be amortised over the remaining term of the original FSIRS.

The end term of the original FSIRSs is 2015, 2020 and 2021. As at 31 December 2013 an amount of EUR -2 million is included in hedging reserve for the 2015 FSIRS (2012: EUR -3 million), EUR -7 million for the 2020 FSIRS (2012: EUR -8 million) and EUR 14 million for the 2021 FSIRS (2012: EUR 16 million).

Hybrid securities

The hybrid securities are deeply subordinated securities and are, apart from common equity, the most junior instruments in the capital structure of the company. The hybrid securities are undated and cannot default upon non-payment of coupons (unless such payment was mandatory following a resolution or payment of a dividend to common shareholders i.e. 'dividend pusher'). This means that TenneT can avoid payment to hybrid securities owners. The holders of the hybrid securities have limited ability to influence the outcome of a bankruptcy proceeding or a restructuring outside bankruptcy.

Consequently, the hybrid security holders 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. As a result the hybrid securities are considered as part of equity attributable to equity holders of the company.

The hybrid securities comprise of EUR 500 million securities issued in 2010 and bear an optional, cumulative interest rate of 6.655%, payable annually on 1 June of each year. Furthermore, in October 2013 additional hybrid securities were issued which bear an optional interest rate of 3%. The transaction costs associated with this issue are recorded in retained earnings. As at 31 December 2013 the unpaid cumulative dividend amounts to EUR 19 million, relating to the period 1 June 2013 until 31 December 2013.

Dividend distribution

In 2013 TenneT distributed a EUR 59 million common dividend (EUR 295 per share) to its ordinary shareholder. In addition, TenneT paid a distribution to the holders of the hybrid securities of EUR 33 million. The income tax benefit related to this distribution was EUR 8 million.

The appropriation of the 2013 profit is at the free disposal of the General Meeting of Shareholders.

7.13 Non-controlling interests

Non-controlling interests relate to the Group's subsidiaries TenneT Offshore 2. Beteiligungsgesellschaft GmbH (hereafter "TO2"), TenneT Offshore 8. Beteiligungsgesellschaft GmbH (hereafter "TO8") and APX Holding B.V. (hereafter "APX"). The proportion of the economic interests held by non-controlling interests is as follows:

(EUR million)	Country	2013	2012
TenneT Offshore 2. Beteiligungsgesellschaft mbH	Germany	69%	69%
TenneT Offshore 8. Beteiligungsgesellschaft mbH	Germany	63%	-
APX Holding B.V.	Netherlands	29%	44%

The Group has the power to control both TO2 as well as TO8 and holds 51% of the voting rights in these entities. The non-controlling interest is reflected on the basis of the economic interest.

In April 2013 TenneT sold a 63% economic interest and a 49% voting interest in TO8 for an amount of EUR 19 million. The total transaction effect on TenneT's equity attributable to the equity holders of the company amounts to EUR -5 million, which includes EUR 3 million transaction costs. Subsequent to the sale of the non-controlling interest made capital contributions of EUR 92 million to TO8 during 2013.

The non-controlling interest in APX decreased as result of the split off and subsequent sale of the APX gas activities. Further information on this transaction is included in note 7.11.

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

Accumulated balances in equity (EUR million)	2013	2012
TenneT Offshore 2. Beteiligungsgesellschaft mbH	247	200
TenneT Offshore 8. Beteiligungsgesellschaft mbH	146	-
APX Holding B.V.	8	20
Total non-controlling interest in equity	401	220

Profit attributable to non-controlling interests (EUR million)	2013	2012
TenneT Offshore 2. Beteiligungsgesellschaft mbH	45	-
TenneT Offshore 8. Beteiligungsgesellschaft mbH	33	-
APX Holding B.V.	-	3
Total profit attributable to non-controlling interests	78	3

Financial information of these subsidiaries is summarized below, on a consolidated basis before intercompany eliminations and based on the Group's accounting principles:

Statement of financial position (EUR million)	2013			2012	
	TO2	TO8	APX	TO2	APX
Non-current assets	970	913	21	901	27
Current assets	189	198	592	120	684
Non-current liabilities	637	688	3	550	3
Current liabilities	164	191	582	180	663
Equity	358	232	28	291	45
Attributable to owners of the parent	111	86	20	91	25
Attributable to non-controlling interests	247	146	8	200	20

Statement of income (EUR million)	2013			2012	
	TO2	TO8	APX	TO2	APX
Revenue	156	92	27	78	28
Depreciation and amortisation	25	-	6	23	-
Other costs	17	2	20	5	21
Operating profit	114	90	1	50	7
Finance income and (expense)	-20	-15	-	-21	-
Income tax (expense)	-30	-22	-	-8	-1
Profit for the year	64	53	1	21	6
Other comprehensive income	-	-	-	-	-
Total comprehensive income	64	53	1	21	6
Attributable to non-controlling interests	45	33	-	-	3
Dividends paid to non-controlling interests	-	-	-	-	-

(EUR million)	2013			2012	
	TO2	TO8	APX	TO2	APX
Net cash flows from operating activities	113	262	5	105	-13
Net cash flows used in investing activities	-94	-383	-2	-230	-2
Net cash flows from financing activities	-19	121	-	125	-5
Change in cash and cash equivalents	-	-	3	-	-20

7.14 Borrowings

The borrowings can be broken down as follows:

(EUR million)	Effective Interest rate	Maturity	Redemption schedule	2013	2012
Non-current interest-bearing borrowings					
3.25% Bond 2010-2015 EUR 500 million	3.3%	Feb-15	At maturity	499	499
3.88% Bond 2011-2018 EUR 500 million	3.9%	Feb-18	At maturity	519	523
2.13% Bond 2013-2020 EUR 500 million	2.2%	Nov-20	At maturity	497	-
4.50% Bond 2010-2022 EUR 500 million	4.5%	Feb-22	At maturity	496	496
4.63% Bond 2011-2023 EUR 500 million	4.6%	Feb-23	At maturity	497	495
4.75% Bond 2010-2030 EUR 200 million	4.8%	Jun-30	At maturity	194	194
2.74% Loan 2012-2023 EUR 150 million	2.7%	Sep-23	At maturity	150	150
4.12% Loan 2010-2021 EUR 150 million	4.1%	Jan-21	At maturity	150	150
4.44% Loan 2010-2023 EUR 140 million	4.4%	2013-2023	Linear	97	108
4.71% Loan 2010-2022 EUR 40 million	4.7%	2013-2022	Linear	25	28
4.40% Loan 2010-2021 EUR 40 million	4.4%	2013-2021	Linear	23	27
Total non-current interest-bearing borrowings				3,147	2,670
Current interest-bearing borrowings					
Cash loans	0.5%	Oct-14	At maturity	50	257
Commercial papers	0.2%	Jan-Apr 2013	At maturity	-	572
3.31% Loan 2010-2013 EUR 40 million	3.3%	Nov-13	At maturity	-	40
4.44% Loan 2010-2023 EUR 140 million	4.4%	Nov-14	At maturity	11	11
4.71% Loan 2010-2022 EUR 40 million	4.7%	Nov-14	At maturity	3	3
4.40% Loan 2010-2021 EUR 40 million	4.4%	May-14	At maturity	3	3
Total current interest-bearing borrowings				67	886

TenneT has short-term uncommitted credit facilities with a total value of EUR 545 million at its disposal (2012: EUR 400 million). 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 (2012: nil) have been drawn from these facilities.

Furthermore, as at 31 December 2013 the Group had EUR 1,625 million of committed revolving credit facilities (2012: EUR 1,625 million) and EUR 650 of EIB facilities at its disposal (2012: nil). Consisting of one revolving credit facility of EUR 1,125 million until 2018 and a EUR 500 million revolving credit facility, expiring in 2015. Both facilities are with an international group of banks. Amounts may be drawn based on the EURIBOR interest rates that correspond with the term of such drawing. The EIB facilities consist of EUR 150 million and EUR 500 million long term loan agreement is with the European Investment Bank ("EIB") signed in July and December 2013 respectively.

At 31 December 2013, no amounts were drawn from these facilities (2012: nil).

7.15 Deferred income

The deferred income can be broken down as follows:

(EUR million)	2013	2012
Investment contributions	235	173
Service contracts	6	7
Other	25	31
Total	266	211

Investment contributions relate to a payment from certain third parties for construction of a new substation, a grid connection or increased capacity for its connection. The payment is recognised as revenue over the related asset's useful life. The amounts in the table above reflect the non-current balance. The current part of the investment contributions amounts to EUR 5 million (2012: EUR 4 million) and is presented separately in the the statement of financial position.

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

Other deferred income mainly relates to a payment received from the former shareholder of TenneT Germany. The payment reflects compensation for certain expenses that will be incurred by the Group in the next 6 years. The payment is equally recognised as revenue over this period of 6 years.

7.16 Provisions

Provisions can be broken down as follows:

(EUR million)	2013			2012		
	Current	Non-current	Total	Current	Non-current	Total
Environmental and decommissioning	9	145	154	6	64	70
Tariffs related	207	22	229	269	44	313
Personnel	-	10	10	1	8	9
Other	1	159	160	48	2	50
	217	336	553	324	118	442
Defined benefit pensions	-	69	69	-	68	68
Total provisions	217	405	622	324	186	510

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

(EUR million)	Environmental management and decommissioning	Tariffs related	Personnel	Other	Total
At 1 January 2012	73	73	8	40	194
Addition	1	276	1	15	293
Utilization	-4	-25	-	-5	-34
Unused amounts reversed	-3	-12	-	-	-15
Imputed interest and discount rate adjustment	3	1	-	-	4
At 31 December 2012	70	313	9	50	442
Addition	95	16	1	121	233
Utilization	-4	-80	-	-11	-95
Unused amounts reversed	-10	-21	-	-3	-34
Imputed interest and discount rate adjustment	3	1	-	3	7
At 31 December 2013	154	229	10	160	553

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

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 assets. The estimated decommissioning provision involves judgement on the expected remaining life in use of the respective asset. Changes in this estimate will probably not result in an effect on the statement of income, instead it will result in a reclassification in the statement of financial position. A discount rate of 4% is applied to calculate the provisions.

Tariffs related

Tariffs related provisions mainly relate to a provision for system services fees in the Netherlands. TenneT charges electricity consumers a fee for system services performed by TenneT. Resulting from a change in law, the court in the Netherlands concluded in the course of 2012 that only parties with a direct connection to a grid maintained by a TSO are required to pay system services fees for the period prior to July 1, 2011. As a result parties without a direct grid connection paid fees for system services to TenneT in the past years which were not owed. The exact amount to be repaid is uncertain and depends, amongst others, on the usage of the party in the past and the nature and legal structure of each individual party.

Personnel provisions

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, an age-dependent retention rate and a discount rate of 4.0%.

Other provisions

The majority of the other provisions relate to legal claims and to risks associated with the Group's offshore activities in Germany. In Germany, TenneT is responsible for establishing certain offshore grid connections from offshore wind farms (hereafter "OWFs") to the nearest technologically and economically feasible onshore (electricity grid) connection point. In December 2012 the BNetzA amended the German Energy Industry Act and included a new statutory framework that further provides for a binding completion date of the offshore connection system. Due to a lack of supplier resources necessary for the construction of offshore grid connection system and bad weather conditions, the timely realisation of offshore grid connection system and, thus, the grid connection of certain OWFs are subject to delays.

As a consequence of such delays, one operator and certain developers of OWFs which have received an unconditional grid connection commitment in the past are pursuing legal proceedings against TenneT.

Defined benefit pensions

The Group has defined benefit plans for the majority of the German personnel, which are mainly based on collective bargaining or works council agreements and offer benefits in the form of old-age, disability and surviving dependents' pensions. The majority of the benefit obligations consist of obligations in which the retirement pension is calculated either on the salaries earned during the most recent years of service (final-pay arrangements) or on a scale of fixed amounts. The level of benefits or contribution to be provided depends on the salary and years of service of the participants. The assets of these plans are held and administrated by the institutions Helaba Pension Trust e.V., Frankfurt (Helaba) and Versorgungskasse Energie VVaG (VKE).

Taken together, the Group contributes to two post-employment defined benefit plans in Germany; work council agreement 'Betriebliche Alterssicherung' (hereafter 'pension scheme 2001') and work council agreement 'Betriebliche Altersversorgung' (hereafter 'pension scheme 2008').

Pension scheme 2001

This scheme covers employees that entered service on or before 31 December 2007 (or later if the individual employment contract has been agreed on before 1 April 2008). It became effective on 1 January 2001 and replaced older plans. As part of the transition to the new plan, employees were guaranteed a pension based on the old plan for their years of service prior to the transition. The plan offers benefits in the form of old-age, disability and surviving dependents' pensions and is composed of the employer-funded basic level based on the respective employee's income, the employer-funded top-up level based on the respective company's performance and the employee-funded supplementary level which allows employees to increase their pension entitlement through deferred compensation.

Pension scheme 2008

This scheme covers employees that entered service after 31 December 2007 (unless the individual employment contract has been agreed before 1 April 2008, for which the pension scheme 2001 applies).

This scheme offers benefits in the form of old-age, disability and surviving dependents' pensions.

The plan entitles employees to receive pension payments after retirement reaching the statutory retirement age or at the latest reaching the age of 67. Additionally, pension payments may be requested at an earlier stage if the employment relationship ends after the respective employee reaches the age of 62.

Pension cost is composed of the employer-funded basic level based on the respective employee's income, the employer-funded top-up level based on the respective company's performance and the employee-funded supplementary level which allows employees to increase their pension entitlement through deferred compensation. If the employee contribution to the supplementary level reaches a certain extent, the company pays an additional contribution of one-third of the respective basic level contribution.

Contributions to the plan earn interest based on the weighted average current yield of German Federal Government Bonds (Bundesanleihen) with different maturities (10, 20 and 30 years). The calculation of the weighted average current yield is done annually and reflects the average duration of the plan.

The disclosure of these plans is grouped in the notes below based on weighted averages. In 2013, one of the plans administrated by VKE was overfunded and resulted in a net pension asset of EUR 1 million. The IFRIC 14 asset ceiling test revealed that this asset can be recognized as a separate asset and is therefore presented in the other financial assets (note 7.6) in the statement of financial position.

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

(EUR million)	2013	2012
Current service cost (note 6.2.3)	7	6
Net interest costs (note 6.3)	3	1
Net benefit expense	10	7

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

(EUR million)	2013	2012
Defined benefit obligation	139	136
Fair value of plan assets	-71	-68
Funded status	68	68
Benefit asset included in other financial assets (note 7.6)	1	-
Benefit liability	69	68

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

(EUR million)	2013	2012
Defined benefit obligation at 1 January	136	90
Current service cost	7	6
Interest cost	5	4
Benefits paid	-	-
Re-measurements on obligation	-9	36
Defined benefit obligation at 31 December	139	136

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

(EUR million)	2013	2012
Fair value of plan assets at 1 January	68	61
Actual return on plan assets	-	5
Contributions by employer	3	2
Benefits paid	-	-
Fair value of plan assets at 31 December	71	68

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

	2013	2012
Equity instruments	18%	20%
Debt instruments	73%	72%
Property	6%	6%
Other assets	3%	2%

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

(EUR million)	2013	2012
Accumulated balance as at 1 January	51	15
Re-measurements during the year	-7	36
Accumulated re-measurements at 31 December	44	51

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

	2013	2012
Discount rate	3.70%	3.50%
Inflation rate	2.00%	2.00%
Future salary increases	2.50%	2.50%
Future pension increases	2.00%	2.00%

Assumptions regarding future mortality experience are set based on actuarial advice in accordance with published statistics and experience. A one percentage point change in the discount or inflation rate would have had the followings effects:

(EUR million)	Effect of increase on DBO	Effect of decrease on DBO
0.25% change of interest rate	-7	8
0.25% change of salary increase rate	1	-1
0.25% change of pension increase rate	-	-
10% change in mortality rate	-3	3

The Group expects to contribute EUR 2 million to its defined benefit pension plans in 2014 and expects the following, undiscounted, benefit payments from the plan:

(EUR million)	2013	2012
Within the next 12 months	1	-
Within 2 and 5 years	9	7
Within 5 and 10 years	24	22
Beyond 10 years	557	513
Total	591	542

7.17 Other non-current liabilities

The other non-current liabilities relates to amounts received in advance, mainly for compensation received from the three other German TSOs for payments to offshore wind farms for the construction of grid connections.

7.18 Account- and other payables

Trade and other payables can be broken down as follows:

(EUR million)	2013	2012
Expenses payable in respect of transmission and system services	1,332	877
Accounts payable	103	106
Accounts payable to related parties	8	6
EEG accounts payable	925	534
Total	2,368	1,523

For a description of the Group's credit risk movement, reference is made to note 4.

7.19 Other financial liabilities

Other financial liabilities relate to collateral securities given by third parties to underwrite trading on energy exchanges and the auctioning of cross-border interconnection capacity. The increase in 2013 compared to 2012 relates to collateral securities given by third parties to APX. In 2012 this balance was included in the assets and liabilities classified as held for sale (refer to note 7.11). The collateral securities held by the Group are classified under the cash and cash equivalents (refer to note 7.10) and an identical amount as financial liability.

7.20 Other current liabilities

Other current liabilities can be broken down as follows:

(EUR million)	2013	2012
Liabilities in connection with energy exchanges	188	-
Interest payable	84	83
To be settled cross border transactions	4	29
Taxation and social security contributions	14	58
Other	165	79
Total	455	249

The liabilities in connection with energy exchanges fully related to APX. In 2012 this liability was included in the liabilities classified as held for sale (refer to note 7.11). The majority of the other liabilities consist of accruals for invoices to be received for (i) energy and capacity purchases in December, (ii) damage compensation to offshore windfarms and (iii) purchases of tangible fixed assets.

8. Miscellaneous

8.1 Commitments and contingencies

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

(EUR million)	2013	2012
Off-balance commitments		
Comfort letters issued	3,178	1,541
Capital commitments	2,977	2,136
Grid related commitments	1,089	632
Guarantees issued	1,477	597
Operating lease commitments	103	111
Other off-balance sheet commitments	78	81
Total off-balance sheet obligations	8,902	5,098
Off-balance sheet rights		
Comfort letters received	2,424	1,886
Bank guarantees received	1,117	777
Government guarantees received	300	300
Other off-balance sheet rights	58	6
Total off-balance sheet rights	3,899	2,969

8.1.1 Off-balance sheet commitments

Comfort letters issued

TenneT has issued comfort letters for the (long-term) financial obligations of TenneT Offshore and the European Market Coupling Company (EMCC) to several external parties for an amount of EUR 1,216 Million (2012: EUR 1,541 million).

Furthermore, the Group has issued several comfort letters to its subcontractors as part of the construction of tangible fixed assets, of which the majority relate to the offshore projects in Germany.

Capital commitments

The capital commitments relate to commitments entered into with regard to the purchase of tangible fixed assets.

8.1.2 Off-balance sheet rights

Comfort letters received

The majority of the comfort letters are received from construction companies involved in the construction of tangible fixed assets, mainly relating to the German offshore projects.

Bank guarantees received

Bank guarantees mainly relate to APX, which received of bank guarantees from members to cover trading margins. In addition, the bank guarantees received include guarantees with respect to prepayments in relation to investment projects in the Netherlands.

Government guarantees received

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

8.1.3 Assets not at free disposal

A considerable portion of EUR 1,659 million (2012: EUR 2,087 million) of the consolidated assets is not at the Group's free disposal. These assets comprise receivables relating to the EEG, securities issued by parties trading on energy exchanges operated by APX, as well as funds received by TenneT in the Netherlands in connection with several of its activities, including:

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

Other

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

Grid related commitments

The grid related commitments include the unused auction receipts in the Netherlands amounting to EUR 664 million (2012: EUR 495 million). TenneT sells transport capacity through auctions. In the Netherlands the received cash is restricted and must be used to finance future investments in interconnectors or to reduce future tariffs.

Guarantees issued

The majority of the guarantees issued are issued by TenneT Offshore 2. Beteiligungsgesellschaft mbH and TenneT Offshore 8. Beteiligungsgesellschaft mbH to the fiscal agent of the bond holders under the EMTN programme. The guarantee equals the consolidated asset base of the respective companies, based on the prior year German GAAP figures. The guarantees are capped at EUR 1,176 million and EUR 1,926 million.

Operating lease commitments

The Group has entered into operating lease commitments for office building and vehicles. Future minimum lease payables under non-cancellable operating leases are as follows:

(EUR million)	2013	2012
Within the next 12 months	14	8
Between 2 and 5 years	33	30
Beyond 5 years	56	73
Total	103	111

Other

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

8.2 Related parties

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

TenneT has the following related parties:

The Dutch State

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

Open Tower Company B.V.

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

Mobile Radio Networks Vehicle B.V.

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

No material transactions with related parties, other than already disclosed, have taken place in 2013. Transactions that did take place were made under normal commercial terms and conditions.

Legal entities that share key management personnel

Mr. Kroon is ordinary member of the Supervisory Board of Port of Rotterdam. TenneT has a ground lease agreement with Port of Rotterdam, which was renegotiated in 2013. Mr. Kroon was not involved in these negotiations and neither in the decision making process.

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.

Ms Hottenhuis is a member of the Executive Board of ARCADIS N.V.. ARCADIS is a supplier to TenneT in the Netherlands. Ms. Hottenhuis has not been involved in any business dealings between ARCADIS and TenneT. Contract reviews, negotiations or awards between the two companies were conducted at the appropriate business levels and in the ordinary course of business.

Both Port of Rotterdam and SAG are not considered related parties.

Key management compensation

The key management compensation is broken down in note 6.2.3 and in the remuneration report as included in the integrated annual report.

The pension entitlement of the Vice-chairman of the Executive Board is based on his employment contract that was agreed with E.ON as former shareholder of TenneT Germany. During 2013 it became apparent that approximately EUR 0.5 million (accrued until 2013) of his entitlement relates to the period prior to the acquisition of TenneT Germany in 2010. The company is pursuing recovery of this amount from E.ON.

8.3 Events after the reporting period

As of 1 Januari 2014 mr. W. Breuer was appointed as non-statutory member of the TenneT Holding B.V. Executive Board.

On 14 February 2014 TenneT and Copenhagen Infrastructure Partners signed an investment and partnership agreement with regard to the offshore project DolWin3. The transaction is expected to close in the course of 2014. Copenhagen Infrastructure Partners will acquire a 49% voting interest representing a 67% economic interest for a maximum equity investment of EUR 384 million.

Furthermore, in February 2014 the legal forms of DC Netz Dolwin3 GmbH and DC Netz Beteiligungsgesellschaft mbH changed into private limited partnerships (KG), with DC Netz BorWin5 GmbH as general partner.

Company financial statements

Company statement of income

for the year ended 31 December (EUR million)

(EUR million)	2013	2012
Result TenneT Holding B.V. after income tax	13	-30
Profit from Group companies after income tax	413	207
Profit for the year	426	177

Company statement of financial position

for the year ended 31 December (EUR million)

Assets (EUR million)	Notes	2013	2012
Non-current assets			
Investments in subsidiaries	9.2	4,750	4,058
Deferred tax assets		-	3
Other financial assets	9.3	3,296	3,234
		8,046	7,295
Current assets			
Other receivables	9.4	-	23
Other financial assets	9.3	89	63
Cash and cash equivalents		119	38
		208	124
Total assets		8,254	7,419

Equity and liabilities (EUR million)	Notes	2013	2012
Equity	9.5		
Paid up and called-up capital		100	100
Share premium		600	600
Hedging reserve		5	5
Reserve for exchange rate differences		-2	-2
Retained earnings		1,346	1,257
Unappropriated result		390	144
Equity attributable to ordinary shares		2,439	2,104
Hybrid securities		520	517
Equity attributable to owners of the company		2,959	2,621
Non-current liabilities			
Borrowings	9.6	3,147	2,670
Loans from subsidiaries	9.7	-	535
Deferred tax liabilities		2	-
		3,149	3,205
Current liabilities			
Borrowings	9.6	67	886
Accounts payable and other liabilities	9.8	2,079	707
		2,146	1,593
Total equity and liabilities		8,254	7,419

Notes to the company financial statements

9.1 Company accounting policies

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

In this company financial statements the investments in subsidiaries are measured at net asset value. The net asset value of a participating interest is determined by valuing the assets, provisions and liabilities and calculating the result using the accounting principles applied to the consolidated financial statements.

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

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

9.2 Investments in subsidiaries

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

(EUR million)	2013	2012
As at 1 January	4,058	3,641
Capital contributions	390	380
Share in result	413	207
Dividends received	-106	-119
Re-measurement of defined benefit pension	5	-27
Net effect on (partial) sale/acquisition of subsidiaries	-8	-24
Other movements	-2	-
As at 31 December	4,750	4,058

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

9.3 Other financial assets

Other financial assets can be broken down as follows:

(EUR million)	2013		2012	
	Current	Non-current	Current	Non-current
Receivables from subsidiaries	87	3,292	61	3,228
Credit facility fees	2	4	2	6
Total	89	3,296	63	3,234

The terms on the receivables are not fixed. The agreed interest rate is Euribor +0.55%. No securities have been provided.

9.4 Other receivables

In 2012 the other receivables consisted of current income tax receivable.

9.5 Equity

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

In addition to the statement of changes in equity, a legal reserve was formed within shareholder equity for a revaluation reserve of EUR 96 million (2012: EUR 107 million) and a reserve for participating interest of EUR 11 million (2012: EUR 10 million). These reserves were charged against retained earnings.

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

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

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

9.6 Borrowings

The details on the borrowings are included in the consolidated financial statements, note 7.14.

Further reference is made to the respective note.

9.7 Loans from subsidiaries

Loans from subsidiaries comprised an intercompany loan from TenneT TSO B.V. This loan was redeemed in 2013. The agreed interest rate on the loan was the Company's cost of funds +0.125%.

9.8 Accounts payable and other liabilities

(EUR million)	2013	2012
Liabilities payable to subsidiaries	1,956	615
Interest	84	83
Current income tax payable	33	-
Other	6	9
	2,079	707

The terms of the liabilities payable to subsidiaries are not fixed; the agreed interest rate is Euro OverNight Index Average ('EONIA') -0.05%. No securities have been provided.

9.9 Related parties

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

9.10 Employees

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

Key management compensation is broken down in note 6.2.3 of the consolidated financial statements and the Remuneration Report as included in the integrated annual report.

Arnhem, 10 March 2014

Executive Board TenneT Holding B.V.

J.M. Kroon¹
M.J. Fuchs¹
B.G.M. Voorhorst¹
O. Jager¹
A.A. Hartman
W. Breuer

Supervisory Board TenneT Holding B.V.

A.W. Veenman
J.L.M. Fischer
R.G.M. Zwitserloot
P.M. Verboom
S. Hottenhuis

¹ Statutory Director

Other Information

Profit appropriation

The appropriation of profits is governed by Section 38.3 of the Articles of Association, which states:

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

The appropriation of the 2013 profit is at the free disposal of the General Meeting of Shareholders and has not been recorded in the financial statements.

Events after the reporting period

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

Independent auditor's report

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

Combined independent auditor's report and assurance report

To: the General Meeting of Shareholders and the Supervisory Board of TenneT Holding B.V.

Report on the financial statements

We have audited the accompanying financial statements 2013 of TenneT Holding B.V. (TenneT), Arnhem, the Netherlands. The financial statements include the consolidated financial statements and the company financial statements. The consolidated financial statements comprise the consolidated statement of financial position as at 31 December 2013, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of the significant accounting policies and other explanatory information. The company financial statements comprise the company balance sheet as at 31 December 2013, the company profit and loss account for the year then ended and the notes, comprising a summary of the accounting policies and other explanatory information.

We have also performed assurance procedures to obtain limited assurance that the non-financial information in the chapters 'Profile', 'Report by the Executive Board (excluding the sections called 'Financial results' and 'Outlook')', 'CSR Reporting principles' and 'GRI table' of TenneT's Integrated Annual Report 2013 is, in all material respects, an accurate and adequate representation of the policy of TenneT with regard to sustainability and the business operations, performance and events in that field during the year 2013. We do not provide assurance regarding the corresponding figures of the non-financial information for the year 2012.

The Integrated Annual Report contains forward-looking information in the form of ambitions, strategy, plans, forecasts and estimates. The fulfilment of such information is inherently uncertain. For that reason, we do not provide assurance relating to forward-looking information.

Management's responsibility

Management is responsible for the preparation and fair presentation of the 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 Executive Board in accordance with Part 9 of Book 2 of the Dutch Civil Code. Furthermore management 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.

Management is also responsible for the preparation of the non-financial information in accordance with the "Sustainability Reporting Guidelines" of the Global Reporting Initiative, the Guidance Note on Sustainability Reporting of the Dutch Accounting Standards Board and the reporting policies of TenneT, including the identification of stakeholders and the selection of material topics. The choices made by management in respect of the scope of the non-financial information and the reporting policies are set out in the section entitled "Scope of this Integrated Annual Report" in the Integrated Annual Report. Furthermore management is responsible for such internal control as it determines is necessary to enable the preparation of the Integrated Annual Report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on the financial statements and to give a conclusion regarding the non-financial information as included in the chapters 'Profile', 'Report by the Executive Board (excluding the sections called 'Financial results' and 'Outlook')', 'CSR Reporting principles' and 'GRI table' of TenneT's Integrated Annual Report based on the assurance evidence obtained. We conducted our procedures in accordance with Dutch law, including the Dutch Standards on Auditing and the Dutch Standard 3410N 'Assurance engagements with respect to sustainability reports'.

This requires that we comply with ethical requirements and plan and perform our procedures to obtain reasonable assurance about whether the financial statements are free from material misstatement and limited assurance about whether the non-financial information as reported in the chapters 'Profile', 'Report by the Executive Board (excluding the sections called 'Financial results' and 'Outlook')', 'CSR Reporting principles' and 'GRI table' of TenneT's Integrated Annual Report is 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 entity'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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

The procedures performed in order to obtain limited assurance regarding the non-financial information aim to assess the plausibility of this information and are limited primarily to inquiries of entity's personnel and analytical procedures applied to non-financial data and therefore provide less assurance than assurance engagements aimed at obtaining reasonable assurance.

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

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 December 31, 2013 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 December 31, 2013 and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

Conclusion with respect to the non-financial information

Based on our procedures we conclude that nothing came to our attention that causes us to believe that the non-financial information as included in the chapters 'Profile', 'Report by the Executive Board (excluding the sections called 'Financial results' and 'Outlook')', 'CSR Reporting principles' and 'GRI table' of TenneT's Integrated Annual Report 2013 does not provide, in all material respects, an accurate and adequate representation of the policy of TenneT with regard to sustainability and the business operations, performance and events in that field during 2013 in accordance with the guidelines of the Global Reporting Initiative, the Guide to Sustainability Reporting of the Dutch Accounting Standards Board and the reporting policy of TenneT as set out in the section entitled "Scope of this Integrated Annual Report" in the Integrated Annual Report.

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 Executive Board, to the extent we can assess, has been prepared in accordance with Part 9 of Book 2 of this Code, and whether the information as required under Section 2:392 sub 1 at b-h has been annexed. Further we report that the report by the Executive Board, to the extent we can assess, is consistent with the financial statements as required by Section 2:391 sub 4 of the Dutch Civil Code.

Arnhem, 10 March 2014

Ernst & Young Accountants LLP

For the selected non-financial information

Signed H. Hollander RA

For the financial statements

Signed A.E. Wijnsma RA, external auditor

Enclosures

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CSR Reporting principles

In accordance with the Global Reporting Initiative (GRI) – the leading organisation in the field of sustainability reporting we have developed a set of transparent reporting principles. They are based on the following core areas:

- Stakeholder inclusiveness
- The sustainability context
- Materiality
- Completeness

These principles guide our decisions on what content the report should cover, by considering our activities, impacts, and the substantive expectations and interests of our stakeholders.

The quality of the information is important to enable stakeholders to make sound and reasonable assessments. To guide our choices on ensuring the quality of information in the sustainability report, including its proper presentation, we use the following set of principles:

- Balance
- Comparability
- Accuracy
- Timeliness
- Clarity
- Reliability

These two groups of principles are described in more detail in the GRI-G4 Implementation Manual where a definition is given and an explanation on how to apply and test them. We use these tests as tools for self-diagnosis and not as specific disclosures to report on.

In order to further clarify the basis for determining the presented information, and in connection with our desire to be transparent, we have disclosed below the specific calculation and determination method used.

The definitions and calculations used have been re-assessed based on, for instance, process improvements, further alignment within the Group and the materiality analysis. As a result, certain originally reported comparative figures have been re-classified to conform to the current year's presentation.

Technical data

Number of substations, convertor locations and circuit lengths are the numbers *in use* by TenneT. The 580 km HVDC NorNed cable and the 260 km HVDC BritNed cable are both included for 50% of their total length. Statnett owns the northern part of the NorNed cable and TenneT the southern part, each part constituting 50% of the interconnector. National Grid and TenneT both own 50% of the BritNed cable through their joint venture company BritNed Development Limited.

Markets

Grid availability

Grid availability is calculated as $1 - (\text{number of customer minutes lost} / \text{total number of customer minutes})$.

Energy not supplied

Energy not supplied is defined as the total number of MWh that could not be transported due to an interruption.

Customer satisfaction

Customer satisfaction was measured in an independent survey, conducted in the Netherlands and in Germany. The customer satisfaction score is based on the percentage of customers who judge their relationship with TenneT as 'satisfying' or better. Total score of customer satisfaction for TenneT Holding is calculated as the average of TenneT NL and TenneT D.

Environment

Grid losses

Every fifteen minutes, we compare the total amount of kWh transferred into the grid with the total transferred out. These in- and outflows are electronically measured in 15-minute time slots at control centres using external meter readings in the grid. The accumulated data is periodically checked and reported on by an independent metering company using validated software. TenneT verifies this data with its metering systems. The completeness of the metering data is determined by a plausibility check.

SF₆

The calculation method for determining SF₆ emission depends on country-specific guidelines and procedures. Consequently, the calculation methods in the Netherlands differ from those in Germany.

SF₆ Germany

In 2008 the FNN (Forum Netztechnik / Netzbetrieb) established a new method for the development and measurement of SF₆ emission. This SF₆ method was agreed upon by the German Federal Ministry for Environment, Nature Conservation and Radiation Safety (BMU). Since 2008, we record and report on SF₆ quantities in:

- outdoor circuit breakers
- outdoor instrument transformers
- switchgear systems
- overall equipment operation
- selected switchgear systems.

The FNN calculates the emission factor using the quantity of SF₆ emissions from selected switchgear systems. The calculation also includes data from the big three German transmission system operators. The emission factors for outdoor circuit breakers and outdoor instrument transformers are fixed. The factors are a result of the practical experiences of the big German TSOs:

- outdoor circuit breakers = 0.6%
- outdoor instrument transformers = 0.3%

The last emission factor of SF₆ insulated substations, published by FNN, = 0.66%.

The calculation is carried out using the general formula:

Total quantity SF₆ emission = quantity of SF₆ in equipment x emission factor

SF₆ Netherlands

The amount of SF₆ emissions is directly recorded by the amount of refills that occur during the year on specific components. Specific maintenance guidelines are in place on the way that these recordings should be made. These refills are reported periodically by the service providers.

Oil leakage

The oil leakage of cables is directly recorded by the amount of oil refilling that occurs during the year on specific components. Specific maintenance guidelines are in place that give instruction to the way that these recordings should be made. These refills are reported periodically by the service providers.

CO₂ footprint

For grid losses and SF₆ we use the information gathered as described in the section Environment.

Our energy consumption is a mixture of directly measured gas and electricity usage at several stations and office locations. This is combined with estimated figures for locations that do not have metering equipment or rented office space where the energy is included in the rent.

For air travel we use the figures which are presented to us by our air transportation service provider which detail CO₂ impact for each flight.

For business travel by road, we determine each specific journey in kilometres. For commuting, the distance is calculated once and then forecasted for a year as part of the income of employees. In the carbon footprint table car travel business and commute is presented as the sum of both figures.

For car travel lease, we get detailed fuel consumption per each lease car and fuel type by our car lease service provider. For our 2012 figures we used both reports about the fuel consumption and the estimations.

For train travel we get a detailed monthly amount of travelled kilometres from the railway organisations.

For the conversion factors we use the Manual CO₂ footprint Grid Operators by the Association of Grid Operators in the Netherlands.

Employees

Number of employees

The number of internal and external employees (headcount) for TenneT NL include the employees of the subsidiaries APX, NOVEC and Duvenkot. However, the percentages mentioned for the split between male and female and the different contract forms at TenneT NL exclude these subsidiaries.

Absentee rate

The absentee rate is calculated as the division of the total days not worked due to illness by the total number of working days. The number of working hours is calculated by using the number of available working days, based on the number of full-time equivalent employees.

There is a difference in the illness and working day calculation principles between TenneT in the Netherlands and Germany. In the Netherlands these days are based on a seven-day week (Mo - Sun), in Germany they are based on a five-day week (Mo – Fr).

Further calculation principles:

- For part-time employees, both the number of absence days and the number of working hours are multiplied by the part-time factor, so that they make the same contribution to the absentee rate as a full-time employee;
- Maternity leave is not considered as an illness;
- A day partly not worked due to illness is considered as a full day of illness.

LTIF (Lost Time Injury Frequency)

LTIF is defined as the number of lost time injuries per million working hours. The LTIF is calculated as the division of the LTI x one million (#LTI x 1,000,000), by the total number of working hours.

The LTI is defined as the sum of the number of incidents, resulting in fatalities, permanent total disabilities and lost workday cases. Number of incidents is including contractor personnel at TenneT sites.

Working hours are defined as the total number of worked hours. Working hours are calculated including TenneT personnel and contractor personnel at TenneT sites.

Employee satisfaction / sustainable engagement

Employee satisfaction was measured by a survey performed by an external company, in Germany and in the Netherlands. The score is based on the percentage of employees satisfied with their work at TenneT.

Sustainable engagement was measured according to the following factors: the percentage of employees engaged with TenneT's strategy and the extent to which they share TenneT's core values of integrity and quality and safety.

GRI table

1. Strategy and analyses				
GRI Code	Description	Omissions	External assurance	Reference
G4-1	Statement from the organization's most senior decision-maker	No omissions	Yes	Letter from the CEO
2. Organisational profile				
GRI Code	Description	Omissions	External assurance	Reference
G4-3	Name of the organization	No omissions	Yes	About TenneT
G4-4	Primary brands, products, and services	No omissions	Yes	Profile
G4-5	Location of the organization's headquarters	No omissions	Yes	15 years of TenneT
G4-6	Number of countries where the organization operates, and names of countries where either the organization has operations that are significant or specifically relevant to the sustainability topics covered in the report	No omissions	Yes	About TenneT
G4-7	Nature of ownership and legal form	No omissions	Yes	Legal Structure General Meeting of Shareholders
G4-8	Markets served (including geographic breakdown, sectors served, and types of customers and beneficiaries).	No omissions	Yes	About TenneT
G4-9	Scale of the organization	No omissions	Yes	Profile
G4-10	Size of the Workforce	No omissions	Yes	Employees
G4-11	Percentage of total employees covered by collective bargaining agreements	No omissions	Yes	Employees
G4-12	Describe the organization's supply chain	No omissions	Yes	Stakeholders
G4-13	Any significant changes during the reporting period regarding size, structure, ownership, or supply chain	No omissions	Yes	Letter from the CEO
G4-14	Report whether and how the precautionary approach or principle is addressed by the organization	No omissions	Yes	Risk Management
G4-15	List externally developed economic, environmental, and social charters, principles, or other initiatives to which the organization subscribes or which it endorses	No omissions	Yes	Society Building coalitions with NGOs
G4-16	Memberships of associations (such as industry associations) and national or international advocacy organizations in which the organization: <ol style="list-style-type: none"> holds a position on the governance body participates in projects or committees provides substantive funding beyond routine membership dues or views membership as strategic 	No omissions	Yes	Information on Executive Board Members
3. Identified material aspects and boundaries				
GRI Code	Description	Omissions	External assurance	Reference
G4-17	a. List all entities included in the organization's consolidated financial statement or equivalent documents. b. Report whether any entity included in the organization's consolidated financial statements or equivalent documents is not covered by the report. The organization can report on this standard disclosure by referencing the information in publicly available consolidated financial statements or equivalent documents	No omissions	Yes	Materiality
G4-18	a. Explain the process for defining report content and the Aspect boundaries; b. Explain how the organization has implemented the reporting principles for defining report content	No omissions	Yes	Materiality
G4-19	List all the material Aspects identified in the process for defining reporting content.	No omissions	Yes	Materiality
G4-20	For each material Aspect, report the Aspect boundary within the organization	No omissions	Yes	Materiality
G4-21	For each material Aspect, report the Aspect boundary outside the organization	No omissions	Yes	Materiality
G4-22	Effect of any restatements of information provided in previous reports, and the reasons for such restatements	No omissions	Yes	Accounting policies
G4-23	Significant changes from previous reporting periods in the scope and Aspect boundaries	No omissions	Yes	CSR Reporting principles

4. Stakeholder engagement

GRI Code	Description	Omissions	External assurance	Reference
G4-24	List of stakeholder groups engaged by the organization	No omissions	Yes	Stakeholders
G4-25	Basis for identification and selection of stakeholders with whom to engage	No omissions	Yes	Stakeholders
G4-26	Organization's approach to stakeholder engagement, including frequency of engagement by type and by stakeholder group, and an indication of whether any of the engagement was undertaken specifically as part of the report preparation process	No omissions	Yes	Stakeholders
G4-27	Key topics and concerns that have been raised through stakeholder engagement, and how the organization has responded to those key topics and concerns, including through its reporting. Report the stakeholder groups that raised each of the key topics and concerns	No omissions	Yes	Stakeholders

5. Report profile

GRI Code	Description	Omissions	External assurance	Reference
G4-28	Reporting period (e.g. fiscal/calendar year) for information provided	No omissions	Yes	Scope of this report
G4-29	Date of most recent previous report (if any)	No omissions	Yes	Scope of this report
G4-30	Reporting cycle	No omissions	Yes	Scope of this report
G4-31	Contact point for questions regarding the report or its contents	No omissions	Yes	Scope of this report Colofon
G4-32	a. Report the 'in accordance' option the organization has chosen. b. Report the GRI Content Index for the chosen option. c. Report the reference to the External Assurance Report, if the report has been externally assured. GRI recommends the use of external assurance but it is not a requirement to be 'in accordance' with the Guidelines.	No omissions	Yes	Global Reporting Initiative (GRI) Combined independent auditor's report and assurance report
G4-33	a. The organization's policy and current practice with regard to seeking external assurance for the report. b. If not included in the assurance report accompanying the sustainability report, report the scope and basis of any external assurance provided. c. The relationship between the organization and the assurance providers. d. Report whether the highest governance body or senior executives are involved in seeking assurance for the organization's sustainability report	No omissions	Yes	External auditors External assurance

6. Governance

GRI Code	Description	Omissions	External assurance	Reference
G4-34	Governance structure of the organization, including committees of the highest governance body. Identify any committees responsible for decision-making on economic, environmental and social impacts	No omissions	Yes	Corporate Governance

7. Ethics and integrity

GRI Code	Description	Omissions	External assurance	Reference
G4-56	Organization's values, principles, standards and norms of behavior such as codes of conduct and codes of ethics	No omissions	Yes	Fraud and integrity

8. Material aspects

Material aspect	Description, DMA and Indicators	Omissions	External assurance	Reference
Employees	Employment – Rates of new employee hires and employee turnover (DMA / G4-LA1)	No omissions	Yes	Employees GRI table
Occupational health and safety	Occupational health and safety – Rates of injury, occupational diseases, lost days, and absenteeism, and total number of work-related fatalities, by region (DMA – G4-LA6)	No omissions	Yes	Safety and Health GRI table
Training and education	Training and education – Training per year (DMA – G4-LA9)	Training information in hours and by gender is not available.	Yes	Fostering Leadership and Talent GRI table

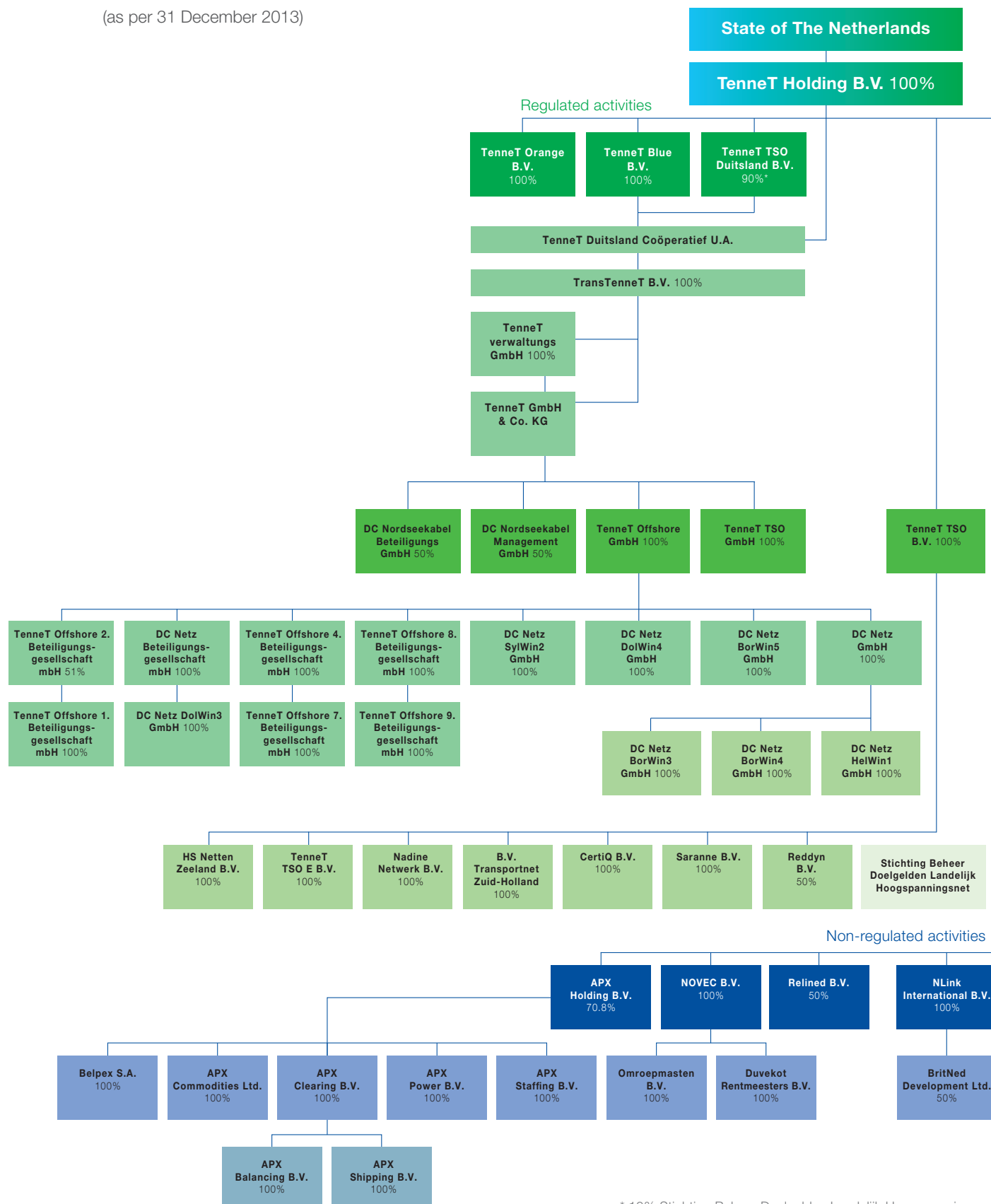
Security practices	Percentage of security personnel trained in the organization's human rights policies or procedures that are relevant to operations. (DMA – G4-HR7)	No omissions	Yes	The Netherlands GRI table
SF ₆ emission	Emissions – Direct greenhouse gas (GHG) emissions (Scope 1) (DMA / G4-EN15)	No omissions	Yes	SF6 GRI table
Oil leakage	Effluents and Waste – Total number and volume of significant spills (DMA / G4-EN24)	No omissions	Yes	Oil leakages GRI table
Local communities	Operations with significant actual and potential negative impacts on local communities (DMA – G4-SO2)	No omissions	Yes	Connecting Citizens GRI table
Public Policy	Total value of political contributions by country and recipient/beneficiary (DMA – G4-SO6).	No omissions	Yes	Political stakeholders in The Hague GRI table
Financial performance	Direct economic value generated and distributed (DMA / G4-EC1)	No omissions	Yes	Financial Results
Grid losses	No specific GRI aspect available but considered material within TenneT.	No omissions	Yes	Grid Losses
Integration of lines and stations	No specific GRI aspect available but considered material within TenneT.	No omissions	Yes	Connecting Citizens

Material aspects	Disclosure of management approach
Employees & Training and education	Attracting, developing and retaining top talent is key to our success. To ensure this happens systematically throughout our organisation, we have several tailored initiatives. This includes our Human Resource Development Programme and Strategic Personnel Planning and helping our leaders excel and inspire others through our Management Development programme. We also aim to foster a stimulating working climate with our Performance Management Programme and Flex@TenneT scheme. Leadership plays a crucial role in employee engagement, making it critical that senior management is not only guided by our strategic vision but also leads by example. During 2013 we worked with our leaders on succession management and leadership development, tailoring development programmes in a structured approach. We also worked hard on our succession management – filling two board positions internally – and focused on strategic planning, particularly for critical functions. As an organisation whose duty it is to provide uninterrupted electricity under all circumstances, we are very aware that there is no room for error. In this, we have identified project management and utility strategy as two critical functions and we are working with internal programmes to develop this. To attract the best talent, we offer students in the Netherlands and Germany work experience, apprenticeships and trainee programmes. We offer the Power Minor programme in the Netherlands and we liaise closely with a number of universities, including leading technological universities of Delft, Twente and Eindhoven. In order to minimise shortfalls of personnel capacity on large infrastructural projects, we carefully monitor and try to prevent talent leaving the company. We either try to absorb these employees elsewhere in the organisation or ensure we have sufficient opportunity for talent to rise up through the organisation.
Occupational health and safety	We embed safety in our culture, from the top down and also the bottom up. We took important steps towards this in 2013, and worked with independent research organisation TNO to gather the views of our employees and leaders on the topic of safety in the Employee Survey and the Safety Culture Survey. Our aim is to equal the oil and gas industry in terms of safety standards – a deliberately challenging goal that still requires considerable progress to achieve. To this end, we intensified our focus on safety in the past year and for each and every employee in the Netherlands and Germany, we made it mandatory to attend a Safety Awareness Workshop. The workshops in the Netherlands have a particular focus on individual practices. All staff and managers are expected to attend the workshops, and to date 631 employees, or approximately 43% of the total number, have done so. After completing the programme for current employees, workshops will be held by our own facilitators for the benefit of new staff. The workshops in Germany were originally intended for managers and team leaders only. They seek to pass on the skills necessary to achieve 'maximum visibility' within their areas of responsibility within the organisation, including construction. We have company-wide safety policies and guidelines, supported by a corporate staff, which add value in achieving our goals. Our operational units develop procedures tailored to their own operational context. To support this, operational safety experts are part of these organisations.
Security practices	In the Netherlands, we joined forces with the Dutch police, the Dutch Federation for Metal Recycling, the National Prosecutors Office, the Ministry of Security and Justice and the railway system operator ProRail (convenant 'Koperslag') in order to reduce theft. TenneT also uses security staff to spot thefts on or around TenneT assets. Their primary role is to spot thefts in progress and to alert authorities. If the authorities cannot arrive in time security staff may proceed with arrests themselves, with proportional action and due respect for human rights. Security staff is trained, by their respective employers, to deal with such situations in a professional manner. This level of training and professional attitude is an explicit requirement of TenneT.

SF ₆ emission	<p>We monitor SF₆ emissions of assets containing SF₆ by responding to alarms, performing inspections and by registering the emissions. If the SF₆ emission of an individual asset is outside the limits derived for by its design, possible corrective measures are analysed. The suitable measure is prioritised within the maintenance or replacement programs based on emission severity. We have detailed this further in maintenance guidelines within our company which are also applicable to external service providers. Our specific policies, guidelines and procedures are part of our system of asset management.</p>
Oil leakage	<p>Oil leakages can contaminate the soil and groundwater; TenneT has a strict policy of replacing leaking oil cables, and is implementing a system of tracer injection to detect smaller leakages and swiftly limit possible contamination. TenneT has implemented a number of measures to prevent soil and groundwater contamination such as safer diesel tanks for the stand-by generators and oil separators. TenneT has also set up a soil management plan which we update yearly. In 2013, we executed a plan to improve the management of drip trays underneath the transformers. Our specific policies, guidelines and procedures to deal with oil leakages are part of our system of asset management.</p>
Local communities	<p>We are fully aware that with high-voltage lines, we are entering the social environment of local people; national infrastructure has local impact. When we install new lines, we can avoid affecting residential areas. When existing lines are involved, we work extensively with stakeholders to minimise the impact. For example, in 2013, the Dutch government launched a 15 year cabling programme, focused on our 150 kV lines in urban areas. The project aims to address and reassure the social concerns of people living close to these lines. TenneT has been intensively involved in the process, working with government and municipal authorities on possibilities for executing the programme, and also looking closely at the legislation framework. After all these priorities have been addressed, we will start executing the cabling programme. At TenneT it is common practice to reach out to local stakeholders, in regular feedback and public information sessions. In Germany alone, with a view to the large onshore projects that we are working on, more than 500 of these sessions are planned in 2014. We embrace all ways of facilitating this community engagement, including the use of new technology. For example, we have found that virtual reality can be a valuable tool for showing local stakeholders location-specific models and details, based on real scales and dimensions. In this way, stakeholders can give their opinions based on models allowing them to visualise the project in full. We have found that this approach provides deep insights and a rich dialogue with our stakeholders from an early stage, helping us to weigh all interests and plan the optimum solution for all concerned. The new slim line Wintrack pylon which we have developed is a good example of an innovative solution that addresses an important issue raised by our local stakeholders: minimising the impact of our projects on the environment and society. These Wintrack pylons allow our infrastructure to blend into the landscape, being less visually intrusive than conventional designs, and reducing electromagnetic fields by 50%. These play an important role in helping us gain acceptance for pylons above ground. Achieving this kind of societal acceptance is essential if we are going to realise the projects that are necessary to achieve the energy transition on time. We are conscious that the impact of our projects on nature and local habitats can be significant and we seek to comply with all applicable environmental laws and regulations. We take extensive steps to minimise our impact, often through intensive analysis and by commissioning reports before we begin a project, detailing the potential impact on the environment. We then seek to mitigate and compensate for any impact wherever possible.</p>
Public policy	<p>We share our expertise and experience with politicians and society at large, advising political stakeholders in The Hague, Brussels and Berlin on energy policy and how to achieve policy goals. We maintain good relationships and regular dialogue with governmental and political bodies at federal, regional and local levels. As a key player in the energy sector, we advise political stakeholders on the development of the energy market (market design, renewable energy). In 2013, the Energy Agreement has been an area of focus in the Netherlands. As a follow-up to this, we are now preparing advice on offshore wind energy and the key role we want to play in that sector. More activities on this are foreseen in 2014. In Germany, the focus was on the impact and pace of the transition to renewable energy, its consequences on the market and on our business. We have regular meetings and working visits with Members of Parliament of all political parties in the Netherlands and Germany. We also have regular contact and meetings with the Ministries of Economic Affairs in both countries on policy issues related to (new) legislation and regulation. As far as the Dutch political agenda is concerned, we foresee that our role in the offshore energy market will change as a result of the Energy Agreement of September 2013. Offshore wind is crucial to realising the sustainable energy target of 16% by 2023 and grid development plays a critical role. In order to achieve the necessary speed and efficiency, it is essential to develop a central, integrated master plan covering both energy generation and grids. We are ready and able to take on this task, drawing on our experience of developing offshore wind infrastructure in Germany. In Brussels, we maintain a continuous exchange with political stakeholders and the administration of the different European institutions. We had meetings with officials of the European Commission on different issues, including certification of the German TSO and the content of a Green Paper titled 'A 2030 framework for climate and energy policies'. This contains new guidelines on state aid and market design. Last year we organised an 'energy breakfast meeting' – discussing regulation and European cooperation – for Members of Parliament, representatives of associations and other interested parties. More meetings are foreseen in 2014. Another initiative which we have helped to bring about is 'Platform Impuls' in the Netherlands. Organised as two meetings per year, these are designed to hear the main concerns and interests of our stakeholders, which, in turn, helps us to improve our performance. As well as working closely with the political parties, we have a close relationship with associations such as VNO NCW, which is a supportive partner of TenneT. Recognising the importance of independence, we did not contribute any monetary value of financial and in-kind political contributions, directly or indirectly.</p>
Financial performance	<p>Our approach is reflected in the chapter Financial Results and in the notes.</p>

Legal structure

(as per 31 December 2013)



* 10% Stichting Beheer Doelgelden Landelijk Hoogspanningsnet

Organisation

Activities

TenneT Holding B.V. presently manages the following activities (as at March 2014):

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 BorWin1 and BorWin2 connection systems which (will) connect certain offshore wind farms located in the North Sea with the high-voltage grid of TenneT TSO GmbH.

TenneT Offshore 8. Beteiligungsgesellschaft mbH

This entity is a holding company, holding the shares in TenneT Offshore 9. Beteiligungsgesellschaft mbH.

TenneT Offshore 9. Beteiligungsgesellschaft mbH

This company is responsible for the construction, maintenance and management of the DolWin2 and HelWin2 connection systems which (will) connect certain offshore wind farms located in the North Sea with the high-voltage grid of TenneT TSO GmbH.

TenneT Offshore 4. Beteiligungsgesellschaft mbH

This entity is a holding company, holding the shares in TenneT Offshore 7. Beteiligungsgesellschaft mbH.

TenneT Offshore 7. Beteiligungsgesellschaft mbH

This company is responsible for the construction, maintenance and management of the SylWin1 and DolWin1 connection systems which (will) connect certain offshore wind farms located in the North Sea with the high-voltage grid of TenneT TSO GmbH.

DC Netz Beteiligungsgesellschaft mbH

This entity is a holding company, holding the shares in DC Netz Dolwin3 GmbH.

DC Netz GmbH

This entity is a holding company, holding the shares in DC Netz BorWin3 GmbH, DC Netz BorWin4 GmbH, DC Netz HelWin 1 GmbH.

DC Netz BorWin3 GmbH

This company is responsible for the construction, maintenance and management of the BorWin3 connection system, which (will) connect certain offshore wind farms located in the North Sea with the high-voltage grid of TenneT TSO GmbH.

DC Netz BorWin4 GmbH

This company is responsible for the construction, maintenance and management of the BorWin4 connection system, which (will) connect certain offshore wind farms located in the North Sea with the high-voltage grid of TenneT TSO GmbH.

DC Netz HelWin1 GmbH

This company is responsible for the construction, maintenance and management of the HelWin1 connection system, which (will) connect certain offshore wind farms located in the North Sea with the high-voltage grid of TenneT TSO GmbH.

DC Netz DolWin3 GmbH

This company is responsible for the construction, maintenance and management of the DolWin3 connection system, which (will) connect certain offshore wind farms located in the North Sea with the high-voltage grid of TenneT TSO GmbH.

DC Netz SylWin2 GmbH

This company is responsible for the construction, maintenance and management of the SylWin2 connection system, which (will) connect certain offshore wind farms located in the North Sea with the high-voltage grid of TenneT TSO GmbH.

DC Netz DolWin4 GmbH

This company is responsible for the construction, maintenance and management of the DolWin4 connection system, which (will) connect certain offshore wind farms located in the North Sea with the high-voltage grid of TenneT TSO GmbH.

DC Netz BorWin5 GmbH

This company is responsible for the construction, maintenance and management of the BorWin5 connection system, which (will) connect certain offshore wind farms located in the North Sea with the high-voltage grid of TenneT TSO GmbH.

DC Nordseekabel Management GmbH (50%)

Management of its own assets as well as participation as a managing limited partner to DC Nordseekabel GmbH & Co KG.

DC Nordseekabel Beteiligungs GmbH (50%)

Management of its own assets as well as participation as a general partner (Komplementärin) to DC Nordseekabel GmbH & Co KG.

DC Nordseekabel GmbH & Co KG (49,995%)

DC Nordseekabel GmbH & Co KG cooperates with Stattnet SF on the development, engineering and maintenance of a HVDC interconnector cable between Norway and Germany.

Corporate structure

After the acquisition of transpower stromübertragungs GmbH (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 Netherlands Enterprise Agency. The Guarantees are registered, issued and traded electronically.

TSO Auction B.V.

As stated in the Annual Report 2012, the activities of TSO Auction B.V. have been transferred to CASC.EU. Therefore, TSO Auction B.V. was dissolved in 2013.

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 to 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.

Nonregulated activities

APX Holding B.V.

APX Holding B.V., with its head office in Amsterdam, is a group of international electricity exchanges for short and long-term trading in Belgium, the Netherlands and the United Kingdom. In March 2013 APX sold its Gas activities. The Belgian TSO Elia System Operator S.A. owns 29.2%, and TenneT Holding B.V. owns 70.8% of the shares. One of the core activities of APX 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 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 24hour and spot trading of electricity and gas in the United Kingdom and is regulated by the UK Financial Services Authority (FSA).

APX Power B.V.

The Dutch company that trades spot contracts for electricity.

APX Clearing B.V.

This company clears the contracts that have been traded on various APX exchanges and holds 100% of the shares in:

APX Balancing B.V. and APX Shipping B.V.,
APX Staffing B.V., Belpex S.A.

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 through the air and for telecommunications 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).

Duvekot Rentmeesters B.V.

Duvekot Rentmeesters B.V. offers its clients estate administration and consultancy services.

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.

Abbreviations, definitions & ratios

ACER - Agency for the Cooperation of Energy Regulators

The European network organisation of energy regulators.

ACM - Authority for Consumers & Markets

The Netherlands Authority for Consumers and Markets keeps track of trends and developments for consumers and businesses and looks specifically at the energy, telecommunication, transport and postal services industries. This authority regulates the network operators on the electricity market, and it sets maximum tariffs for transmission for the national grid operator's system services and for the connections to the grid. The ACM creates conditions for a well-functioning national and international wholesale market.

AIB - Association of Issuing Bodies

An international partnership of European Guarantee of Origin issuing organisations.

BNetzA - Bundesnetzagentur für Elektrizität, Gas, Telekommunikation, Post und Eisenbahnen

German regulatory authority, which maintains and promote, the competition in so-called grid markets amongst other duties.

BritNed

The 260km HVDC BritNed cable has a capacity of 1000MW and interconnects the Dutch and British electricity grids (commissioned in 2011).

Carbon footprint

The total amount of greenhouse gases produced to directly and indirectly support human activities, usually expressed in equivalent tons of carbon dioxide (CO₂).

CASC.EU - Capacity Allocation Service Company.EU

CASC.EU is the central auction office for cross-border transmission capacity for Central Western Europe, the borders of Italy, Northern Switzerland and parts of Scandinavia. CASC.EU facilitates the purchasing

and selling of transmission capacity by providing a single auction platform and point of contact.

CBb - College van Beroep voor het bedrijfsleven

The Netherlands Trade & Industry Appeals Tribunal, also known as Administrative High Court for Trade and Industry, is a specialised administrative court which rules on disputes in the area of social-economic administrative law.

COSO - Committee of Sponsoring Organisations of the Treadway Commission

COSO has established a common internal control model against which companies and organisations assess their control systems.

CSR - Corporate Social Responsibility

Corporate Social Responsibility refers to what companies stand for on sustainability.

DACF - Day Ahead Congestion Forecast

Day Ahead Congestion Forecast is a regular procedure for power flow forecasts in the European interconnected energy network for operational planning purposes.

EBIT - Earnings Before Interest and Tax

Profit for the period before income tax expense and finance result.

EBIT growth

(EBIT year t minus EBIT year t-1) divided by EBIT year t.

EBITDA - Earnings Before Interest, Tax, Depreciation and Amortisation

Profit for the period before income tax expense, finance result, depreciation, amortisation and (non-cash) impairments.

EBITDA growth

(EBITDA year t minus EBITDA year t-1) divided by EBITDA year t.

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 aimed at reducing dependence on fossil fuels like oil, natural gas or coal, and nuclear power.

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.

ERM - Enterprise Risk Management

This refers to methods and processes used by organisations to manage risks and seize opportunities related to the achievement of their objectives and provides a framework for risk management.

FFO - Funds From Operations

Profit for the year plus depreciation, amortisation and impairments minus gain/loss on disposal of assets.

FFO/net debt

Funds from operations divided by net debt, adjusted.

FTE - Full-Time Equivalent

A full-time employment position.

GO - Guarantee of Origin

A tradable certificate that offers conclusive proof of the source of energy consumed to the final owner.

Gross interest-bearing debt

Non-current borrowings plus its current portion plus bank overdrafts.

GRI - Global Reporting Initiative

The Global Reporting Initiative is a non-profit organisation that promotes sustainability and produces global standards for sustainability reporting.

GW - Gigawatt

An amount of power equal to 1 billion watts.

GWh - Gigawatt hour

An amount of energy equivalent to delivering 1 billion watts of power for a period of one hour.

HVDC - High-Voltage Direct Current

A HVDC electric power transmission system uses direct current for the bulk transmission of electrical power, in contrast with the more common alternating current systems. The advantage of HVDC is the ability to transmit large amounts of power over long distances with lower capital costs and with lower losses than alternating current. HVDC allows efficient use of energy sources remote from load centres.

IDCF - Intraday Congestion Forecast

The Intraday Congestion Forecast is a 24/7 power flow forecast used in the European interconnected energy network for operational planning purposes.

IFRS - International Financial Reporting Standards

The internationally prescribed and recognised reporting guidelines applied by TenneT.

Invested capital

Adjusted net debt plus total equity.

KPI - Key Performance Indicator

Key Performance Indicators are quantifiable measurements, agreed to beforehand, that reflect the critical success factors of an organisation.

kV - kilovolt

An amount of electric voltage equal to 1,000 volts.

KWK-G - Kraft-Wärme-Kopplungs-Gesetz

German Combined Heat and Power Act.

LTIF - Lost Time Injury Frequency

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

MCE - Mariëndaal Centre of Excellence

TenneT's new head office in Arnhem (since December 2013).

MW - Megawatt

An amount of power equal to 1 million watts.

MWh - Megawatt hour

An amount of energy equivalent to delivering 1 million watts of power for a period of one hour.

Net interest-bearing debt, adjusted

Interest-bearing debt plus/minus EEG (Erneuerbare-Energien-Gesetz) payables/receivables minus cash and cash equivalents at free disposal.

NGO - Non-Governmental Organisation

A non-governmental organisation refers to an organisation that is neither a part of a government nor a conventional for-profit business.

NorNed cable

The 580km HVDC NorNed cable has a capacity of 700MW and interconnects the Dutch and Norwegian electricity grids (commissioned in 2008).

RES - Renewable Energy Sources

Renewable energy sources refer to natural energy sources such as sunlight and wind.

ROIC - Return on invested capital

EBIT/average invested capital during year.

RGI - Renewables Grid Initiative

Is an initiative in which TSOs and NGOs have joined forces to promote the integration of 100% renewably-generated electricity in the European grid.

RVO - Rijksdienst voor Ondernemend Nederland

Netherlands Enterprise Agency is part of the Ministry of Economic Affairs and encourages entrepreneurs in sustainable, agrarian, innovative and international business by helping with grants, finding business

partners, know-how and compliance with laws and regulations. The Agency works at the instigation of ministries and the European Union.

SF₆ - Sulfur Hexafluoride

An inorganic, colourless, odourless and non-flammable greenhouse gas. SF₆ is used in the electrical industry as a gaseous dielectric medium for high-voltage circuit breakers, switchgear and other electrical equipment.

TSC - TSO Security Cooperation

TSO Security Cooperation is a transnational cooperation between European TSOs that focuses on secure transmission operations.

TSO - Transmission System Operator

Responsible for providing (1) power transmission services, by constructing and maintaining a robust high-voltage grid, (2) system services, by maintaining the balance between supply and demand of electricity 24 hours a day, and 7 days a week and (3) facilitating a smoothly functioning, liquid and stable electricity market.

VOCs - Volatile Organic Compounds

A VOC is any organic compound having an initial boiling point less than or equal to 250 °C measured at a standard atmospheric pressure of 101.3 kPa and can do damage to visual or audible senses.

WACC - Weighted Average Cost of Capital

WACC is calculated on the basis of weighted average of the cost of debt and equity. It represents the minimum return expected of a company by its providers of capital for financing its assets.

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'.

Colophon

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Concept & Design

DartGroup, Amsterdam

Printing

De Bondt Grafimedia, Barendrecht

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Disclaimer

'We', 'TenneT', 'TenneT Holding', 'the Group', 'the company' or similar expressions are used in this report as a synonym for TenneT Holding B.V. and its subsidiaries.

Parts of this report contain forward-looking 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 forward-looking statements are based on current assumptions concerning future activities and are subject to known and unknown factors, and other uncertainties, many of which are beyond TenneT's control, so that future actual results may differ significantly from these statements.

All financial information in this integrated annual report is reported in millions of euro, unless stated otherwise. As a result, small rounding differences may occur.



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