

Interim financial statements

As per 30 June 2010
TenneT Holding





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01

Introduction

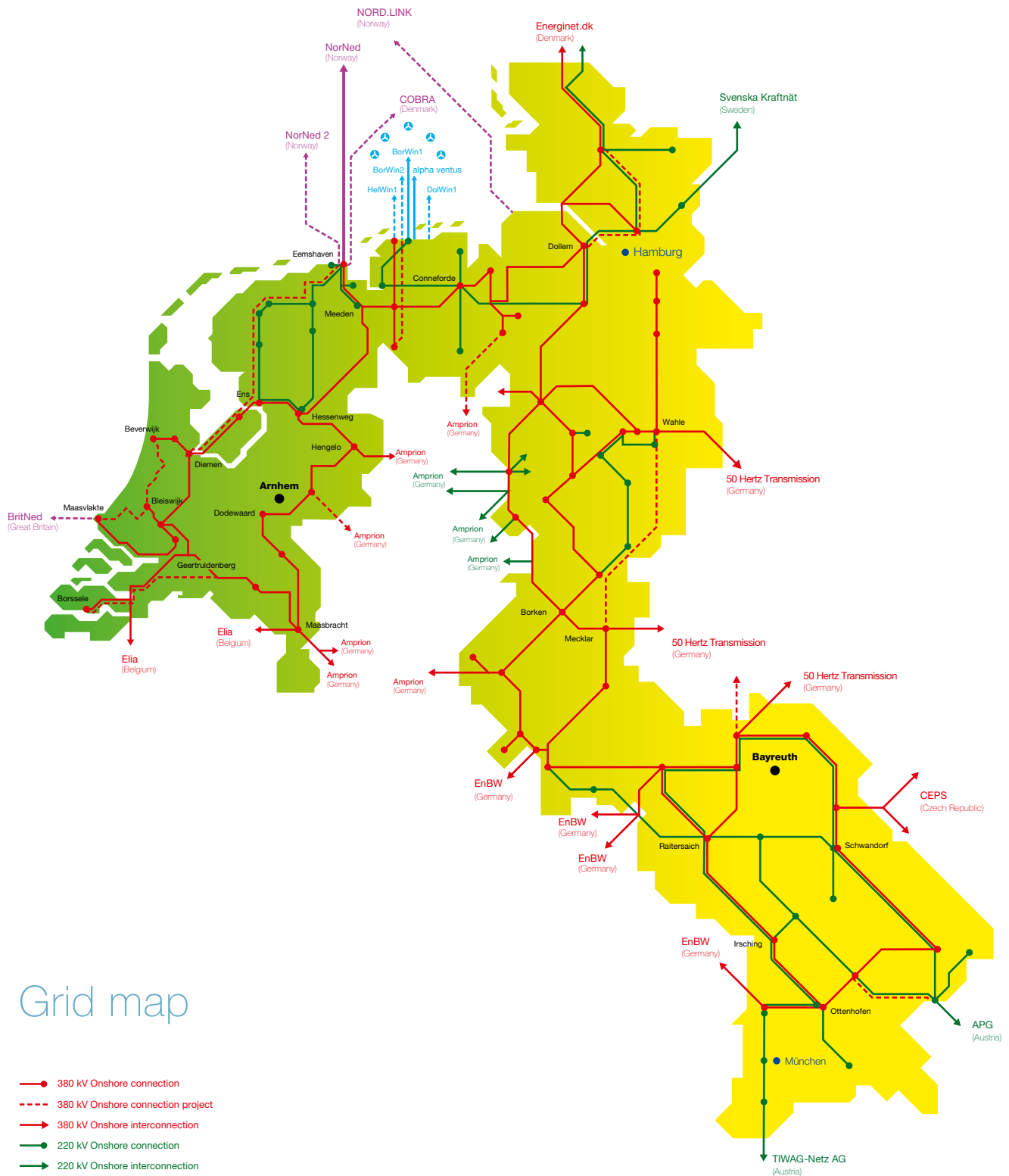
With the acquisition of E.ON AG's high voltage grid, TenneT has become the first European cross border transmission system operator and one of the leading TSO's in Europe.

During the first six months of 2010 significant progress was made to integrate the two companies, in order to be well-positioned to play a major role in the development of an integrated European energy market.

The combined company will operate under the familiar and trusted name "TenneT". TenneT's strategy will continue to be aimed towards enhancing security of supply and price stability. Also, technical innovation and promotion of a sustainable European energy environment will stay high on the company's agenda.

To meet the company's increased financing needs, three senior bonds with aggregate proceeds amounting to EUR 1.2 billion were issued in the first half of 2010. In addition, the company issued EUR 500 mln of perpetual subordinated securities in the first quarter of 2010.

Given the extended scope of TenneT's business and involvement of new investors and stakeholders as a result of the acquisition, the company has decided to publish interim financial statements in 2010.



Grid map

- 380 kV Onshore connection
- - - 380 kV Onshore connection project
- 380 kV Onshore interconnection
- 220 kV Onshore connection
- 220 kV Onshore interconnection
- Offshore DC interconnection
- - - Offshore DC interconnection project
- Offshore wind connection
- - - Offshore wind connection project
- Head office
- City
- Substation

Krimpen Substation

02

Profile

Our mission

In today's liberalised energy market, TenneT is an important facilitator. The company offers a high-quality transmission grid and an individualised approach to customer requirements. TenneT also continues to develop a broad range of new transmission and system services, while promoting the efficiency of the market and the transition to a sustainable energy supply. TenneT's investments support the efficient operation of the Dutch and German electricity markets. TenneT aims to provide its stakeholders with the following:

Society

- efficient, high-quality transmission and system services at competitive prices;
- a leading contribution to the realisation of a single, integrated energy market in North-West Europe;
- services that enhance the environmental quality of energy supplies;
- services for other infrastructure systems for the purpose of realising synergy.

Customers

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

Shareholder

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

Employees

- an attractive working environment;
- a competitive benefits package appropriate to the employee's position and responsibilities;
- good prospects for personal growth and career advancement.

Our vision

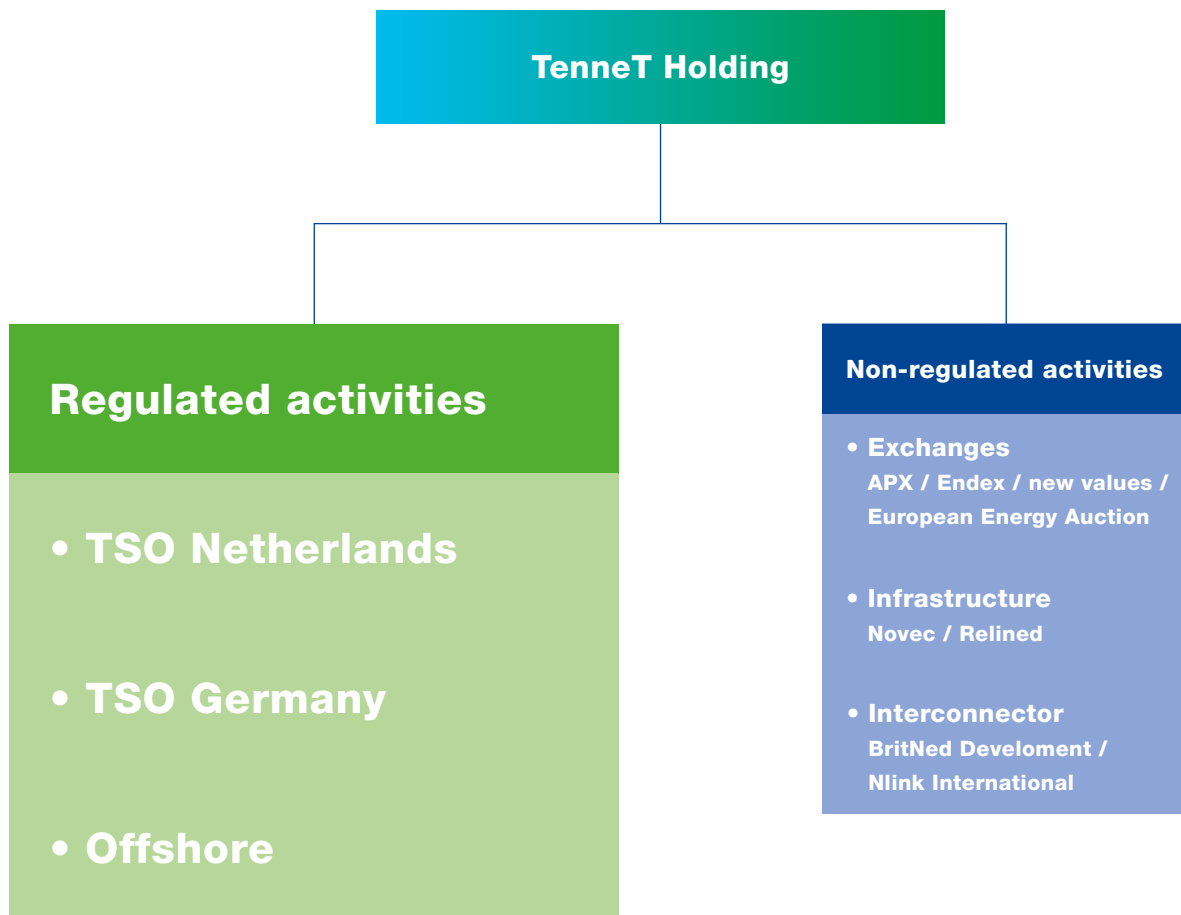
TenneT's aim is to create a strong electricity market in Europe. For this the company has acquired an excellent position in the Dutch, German and North-West European Market and it will proactively pursue further development, taking specific steps together with fellow TSO's, regulators and governments.

Our ambition

It is our ambition to further develop our transmission grid, and to maintain high quality level. TenneT is investing heavily in both existing and new grid infrastructure and developing several new connections, both within and across national borders. Examples are subsea cable links to the UK and Denmark, and a fourth interconnection between the Netherlands and Germany. Within the Netherlands, new high-voltage lines are being realised in the north and southwest of the country and in the Randstad area. These connections will facilitate the further development of the energy sector in The Netherlands. In Germany, TenneT is responsible for connecting offshore wind farms, in the North Sea, to the on-shore electricity grid. The first wind farm is operational. The on-shore grid in Germany is undergoing expansion: a planned north-south connection will transmit excess offshore wind energy to the south of the country.

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Business activities overview TenneT Group*



* Simplified representation as per 30 June 2010 (see annex for legal overview).

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Key figures

(x EUR mln)

Financial data (in millions of euros)			
	First half 2010	First half 2009*	2009*
Revenues	**3,212.8	261.3	546.7
Revenues excluding renewable energy	614.8	261.3	546.7
Operating profit (EBIT)	***125.1	46.3	137.4
Net profit after amounts allocated to third-parties	***66.5	24.6	72.1
Tangible fixed assets	3,867.3	2,323.4	2,417.8
Equity	1,266.9	690.3	727.6
Total assets	6,301.6	3,717.9	3,570.0
Cash flows from operating activities	68.9	36.7	98.5
Cash flows from investing activities	(871.8)	(899.3)	(1,118.4)
Cash flows from financing activities	839.5	801.9	899.0
Average number of staff (in FTEs)	1,825	808	933

* 2009 excluding transpower figures, as transpower was acquired in 2010.

** including an amount of EUR 2,598 mln of revenue and costs in connection with the sale and purchase of renewable energy by transpower.

*** including one-off items primarily related to released provisions of EUR 14.0 mln before tax.

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Overview of key events

Organisational developments

Finalisation of transpower acquisition

Early February 2010, TenneT received an unconditional approval from the European Commission for its acquisition of the German high-voltage grid operator transpower stromübertragung gmbh (transpower). The new joint company will operate under the name TenneT effective 1 October 2010 and is responsible for more than 20,000 kilometers of high-voltage connections in a supply area that is home to over 35 million people. TenneT employs over 1,800 staff, with its head office located in Arnhem, the Netherlands, and several branch offices throughout the Netherlands and Germany.

In addition to the primary objective of the acquisition i.e. to enhance harmonization of electricity tariffs in the Netherlands and Germany, TenneT aims to realise significant financial benefits from economies of scale, e.g. through joint procurement of components and also of regulating and reserve capacity. These purchasing synergies are targeted at over EUR 20 mln in 2011, and approximately EUR 40 mln per annum from 2014 onwards and will directly benefit the consumers in TenneT's supply areas through comparatively lower tariffs.

Power exchanges to pursue closer collaboration

In May, Belgian TSO Elia and TenneT announced the transfer of their stakes (60% and 10% respectively) in the Belgian energy exchange Belpex to APX-Endex. Simultaneously Elia will acquire a 20% participating interest in the APX-Endex group, a company in which TenneT is the majority shareholder. With this, Elia and TenneT are taking another major step towards the establishment of a single electricity market in North-West Europe whilst creating greater possibilities for international trade. This transaction was not yet completed in the first half year of 2010.



Operational management

During the first half year best practices and other operational business synergies for the newly combined organization were investigated. Preparations for a first joint tender were started.

TenneT maintained its very high standard of safety and security of supply. A few notable power interruptions occurred, all in the Netherlands, but power supply was quickly re-established. TenneT's exposure to claims related to these incidents is considered minor in view of extensive insurance cover.

On January 29th, a cable fault occurred in the NorNed cable some 70 kilometers off the Dutch coast. The link was taken back into operation in April after a major recovery and repair operation. The underlying cause of the cable fault is under investigation.

Investments


Onshore

Based on construction plans of several new power generating facilities throughout the Netherlands, TenneT is facing substantial grid investments. Three large 380 kV investment programs are in different stages of development. These are aimed to strengthen the north-west connection, the south-west connection and the Randstad area, respectively. In Germany onshore investment programs consist of, among others, the connection between Altenfeld and Redwitz, and expansion of the transformer stations in Maade, Borken, Dollern and Landesbergen.

The associated estimated capital expenditures for the coming 5-7 years amount to EUR 3 billion in The Netherlands and EUR 1.2 billion in Germany.

Offshore

The majority of the German investment program is related to connecting offshore wind farms. These wind farms will be instrumental to Germany's target to have around half of its electricity supply sourced from renewables by 2050. At the moment two offshore connections have been completed (Alpha Ventus and BorWin1). Three more connections are planned for the

A tall, lattice-structured electricity pylon stands in a field of yellow dandelions. Multiple high-voltage power lines stretch across the frame from the pylon towards the horizon. The sky is a clear, bright blue. The foreground is filled with green grass and numerous yellow dandelion flowers.

*Three large 380 kV
investment programs
are being developed
in The Netherlands*



coming years (BorWin2, HelWin1 and DolWin1) and will require over EUR 2 billion in aggregate capital expenditures. These investments have been pre-approved by the German regulator.

International cable links

In June 2010, the subsea cable link between the Netherlands and the UK reached the British coast. This EUR 600 mln project of BritNed Development Ltd., a 50/50 joint venture between TenneT and National Grid, is on schedule and planned to go into operation early 2011. This cable link will enhance competition on the European markets and security of supply.

During the state visit of H.M. Queen Beatrix of the Netherlands to Norway in June 2010, TenneT announced that it would proceed with the next development phase of two new links to Norway (NORD.LINK and NorNed II) aimed to reduce electricity price differences between the Scandinavian and the North-West European market and to enable import of carbon free hydro power from Norway.

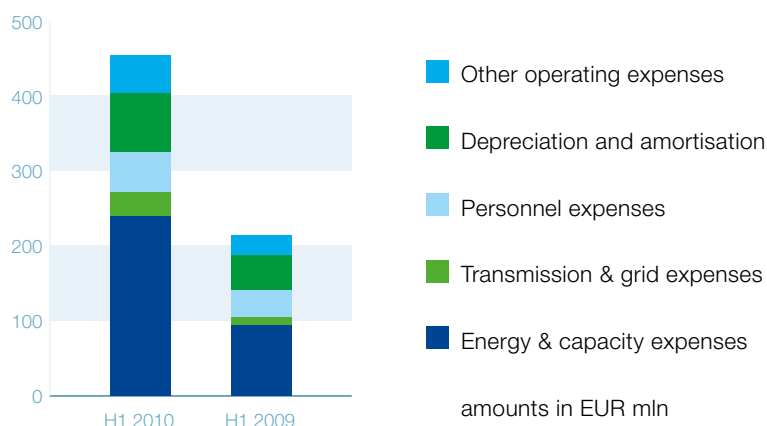
Financial

Profit and Loss

Total revenue over the first half of 2010 is EUR 3,212.8 mln, including EUR 2,598.0 mln in connection with the sale of renewable energy. Excluding the acquisition effect of transpower, TenneT's revenue decreased with EUR 6.4 mln. As this amount relates to a pass through of expenses it does not affect EBIT.

Total operating expenses over the first half of 2010 are EUR 3,087.7 mln including EUR 2,598.0 mln in connection with the procurement of renewable energy. Operating expenses, excluding the acquisition effect of transpower, showed an increase of EUR 4.7 mln, mainly caused by higher transmission and grid expenses and other operating expenses.

A break-down of the operating expenses is given below.



TenneT Group consolidated operating result over the first half of 2010 is EUR 125.1 mln (2009: EUR 46.3 mln). The net result over the first half of 2010 amounted to EUR 66.5 mln (2009: EUR 24.6 mln), and is almost entirely driven by strong results of transpower.

One-off items mainly related to the release of provisions, contributed to this half year result of the group (positive effect: EUR 14 mln, before tax). Without these items the operating result (EBIT) over the first six months of 2010 would have been EUR 111.1 mln with a net income of EUR 56.4 mln.

Balance Sheet

The increase in total assets is primarily a result of the acquisition of transpower at the beginning of 2010. High levels of accounts receivable and accounts payable are mainly related to the sale and purchase of renewable energy within transpower. These receivables do not carry a significant credit risk.

In connection with the acquisition TenneT issued EUR 0.5 billion of undated securities. These securities are classified under IFRS as equity, are deeply subordinated and are, apart from common equity, the most junior instruments in the capital structure of the Company. The securities cannot default upon non-payment of coupons (unless such payment was mandatory following payment of a dividend to common shareholders (i.e., "dividend pusher"). The holders of the securities have limited ability to influence the outcome of a bankruptcy proceeding or a restructuring outside bankruptcy.

The increase of interest bearing debt results from the issuance of EUR 1.2 billion of public senior bonds, in combination with a loan of EUR 150 mln by the European Investment Bank.

Post Balance Sheet event

On 22 September 2010, the Dutch regulator published the fifth regulatory method decision. Amongst others, under this new method Extra High Voltage assets constructed before 2001 have been declared partly (43%) inefficient. This concerns an asset base with a regulatory value of around EUR 640 mln.

The inefficiency assumed by the Dutch regulator will be reflected in reduced transport tariffs in future years. Where in the past these assets have not been rated as inefficient whilst lacking options for structural efficiency improvements of these assets and taking into account the phasing out of reduced transport tariffs over the remaining economic life (10-15 years), an indicative impairment is foreseen in the range of EUR 100-200 mln. Detailed calculations to determine the impact on the valuation in TenneT's accounts are currently being made.

TenneT will undertake legal steps against various elements of the fifth regulatory method.

Credit rating

On 21 January 2010, TenneT Holding received credit ratings from Standard & Poor's and Moody's. An overview of these ratings as per 30 June, is given below.

Credit rating		
	Long-term rating	Short-term rating
Standard & Poor's	A- (stable outlook)	A-2
Moody's	A3 (stable outlook)	P-2

06 Financial Report Summary

Consolidated balance sheet at 30 June 2010

Assets	30 June 2010			31 December 2009		
(amounts in EUR mln)	Total	Not free	Free	Total	Not free	Free
Non current assets						
Tangible fixed assets	3,867.3	-	3,867.3	2,417.8	-	2,417.8
Intangible fixed assets	127.2	-	127.2	108.9	-	108.9
Participating interest	17.7	-	17.7	10.7	-	10.7
Financial assets	2.2	-	2.2	19.1	12.5	6.6
Deferred tax assets	34.7	-	34.7	29.8	-	29.8
Other receivables	14.1	-	14.1	13.3	-	13.3
	4,063.2	-	4,063.2	2,599.6	12.5	2,587.1
Current assets						
<i>Inventories</i>	12.9	-	12.9	4.4	-	4.4
Accounts receivable and other receiv.	598.6	18.3	580.3	175.1	67.2	107.9
Accounts receivable in connection with renewable energy	870.9	-	870.9	-	-	-
Accounts receivable in connection with energy exchange transactions	124.5	124.5	-	124.6	124.6	-
<i>Receivables</i>	1,594.0	142.8	1,451.2	299.7	191.8	107.9
<i>Financial assets</i>	28.0	20.0	8.0	31.7	29.5	2.2
Collateral securities	512.8	512.8	-	466.4	466.4	-
Deposit	30.2	-	30.2	127.0	127.0	-
Cash at banks	55.2	26.0	29.2	35.9	13.1	22.8
<i>Cash and cash equivalents</i>	598.2	538.8	59.4	629.3	606.5	22.8
<i>Non-current assets held for sale</i>	5.3	-	5.3	5.3	-	5.3
Total Assets	6,301.6	701.6	5,600.0	3,570.0	840.3	2,729.7

Equity and liabilities	30 June 2010			31 December 2009		
(amounts in EUR mln)	Total	Not free	Free	Total	Not free	Free
Equity						
Equity attributable to shareholder	760.5	-	760.5	718.6	-	718.6
Non-controlling interest	9.6	-	9.6	9.0	-	9.0
Hybrid securities	496.8	-	496.8	-	-	-
	1,266.9	-	1,266.9	727.6	-	727.6
Non-current liabilities						
Interest-bearing debt	1,584.7	-	1,584.7	254.3	-	254.3
Investment contributions	345.2	-	345.2	349.7	-	349.7
Auctions receipts	307.0	7.0	300.0	292.3	66.3	226.0
Provisions	144.1	-	144.1	19.0	-	19.0
Deferred tax liabilities	226.1	-	226.1	5.3	-	5.3
	2,607.1	7.0	2,600.1	920.6	66.3	854.3
Current liabilities						
Amounts received in advance	20.0	-	20.0	21.4	-	21.4
Interest-bearing debt	-	-	-	978.4	-	978.4
Provisions	8.3	-	8.3	16.7	-	16.7
Bank overdrafts	10.6	-	10.6	141.3	135.0	6.3
Accounts receivable in connection with energy exchange transactions	124.2	124.2	-	123.9	123.9	-
Liabilities relating to collateral securities	512.8	512.8	-	466.4	466.4	-
Accounts payable and other liabilities	893.8	57.6	836.2	169.9	48.7	121.2
Accounts payable in connection with renewable energy	793.9	-	793.9	-	-	-
Tax	61.1	-	61.1	-	-	-
Derivative financial instruments	2.9	-	2.9	3.8	-	3.8
	2,427.6	694.6	1,733.0	1,921.8	774.0	1,147.8
Total Equity and liabilities	6,301.6	701.6	5,600.0	3,570.0	840.3	2,729.7

Notes to the balance sheet

Transpower is consolidated as of 25 February 2010, the date of control for the acquisition. The provisional Purchase Price Allocation (PPA) is included in the financial statements per 30 June 2010, resulting in a preliminary accounting goodwill of 20 EUR mln.

TenneT issued EUR 0.5 billion of perpetual subordinated securities. These securities are classified under IFRS as equity. The hybrid securities are perpetual 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 payment of a dividend to common shareholders (i.e., "dividend pusher"). The holders of the hybrid securities have limited ability to influence the outcome of a bankruptcy proceeding or a restructuring outside bankruptcy.

A considerable portion of consolidated assets (EUR 0.7 billion, down from EUR 0.8 billion in 2009) is not at the Group's free disposal. These assets comprise securities issued by parties trading on energy exchanges operated by APX-ENDEX, as well as funds received by TenneT TSO in connection with several of its activities, including:

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

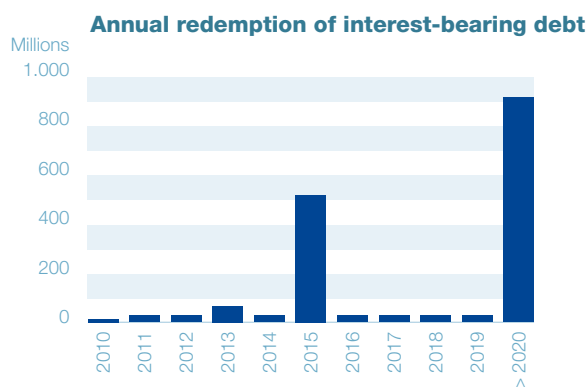
Funds resulting from these activities are managed by the Stichting Beheer Doelgelden Landelijk Hoogspanningsnet and may only be used for a limited number of investment purposes, particularly the removal of restrictions affecting cross-border interconnections.

Debt position and financing		
Amounts in millions of euro	30 June 2010	31 December 2009
Long-term loans	1,585	254
Short-term loans	0	978
Current account liabilities	11	141
Debt position	1,596	1,373

At 30 June 2010 TenneT's debt position amounted to EUR 1,596 mln, up from EUR 1,373 mln at 31 December 2009. The increase is the result of the issue of EUR 1.2 billion in senior bonds. In addition, a loan in the amount of EUR 150 mln was taken out with the European Investment Bank. These new loans totalling EUR 1,350 mln were used mainly to finance TenneT's investment programme, redemptions of short-term loans, and the acquisition of transpower.



Redemptions of long-term loans



As a result of the issue of senior bonds and the contracting of a long-term loan with the European Investment Bank in the first six months of 2010, TenneT Group's maturity profile has been extended compared to the situation on 31 December 2009. On 31 December 2009, the majority of the loan portfolio had to be redeemed within three years.

Credit facility

In June 2010, TenneT negotiated an increase in its existing committed credit facility from EUR 875 mln to EUR 1.125 billion. The term of this facility was extended from May 2012 to June 2015. No amounts were outstanding under this facility at 30 June 2010. In addition, TenneT had EUR 605 mln at its disposal in the form of current account facilities and other short-term bank credit facilities.



Consolidated profit-and-loss account for the first half of 2010		
(amounts in EUR mln)	First half 2010	First half 2009
Revenue	3,212.8	261.3
- Energy and capacity expenses	2,872.4	94.3
- Transmission grid and system expenses	32.9	11.0
- Personnel expenses	52.6	35.3
- Depreciation & amortization	78.9	47.8
- Other operating expenses	50.9	26.6
Total operating expenses	3,087.7	215.0
Operating profit	125.1	46.3
Net interest income / expenses	(24.6)	(12.9)
Other finance charges	(5.7)	0
Result from participating interest	0.5	0
Profit before tax	95.3	33.4
Corporation taxes	28.5	8.5
Profit after Tax	66.8	24.9
Allocated to:		
Non-controlling interest	(0.3)	(0.3)
Shareholder	66.5	24.6

Notes to the consolidated Profit and Loss account

Revenue as well as energy and capacity expenses in the first half year 2010 include EUR 2,598 mln in connection with the sale and purchase of renewable energy at transpower.

Other finance charges represent an after-tax amount of EUR 5.7 mln. This amount has been added to auction receipts on the balance sheet. Payment of this amount remains at the full discretion of TenneT TSO Duitsland B.V. (TTD) and does not constitute an obligation on the part of TTD.



Consolidated statement of comprehensive income for the first half of 2010

(amounts in EUR mln)	First half 2010	First half 2009
Profit after Tax	66.8	24.9
Other income and expenses		
Exchange rate differences	0.8	1.3
Change in fair value	(19.0)	(1.1)
Tax payable on change in fair value	4.9	0.3
Total realised and unrealised income	53.5	25.4
Allocated to:		
Non-controlling interest	(0.5)	(0.7)
Shareholders	53.0	24.7

Notes to the consolidated statement of comprehensive income

The change in fair value of EUR 19 mln relates to the interest rate swaps and forward exchange contracts.

Consolidated statement of changes in equity for the first half of 2010

(amounts in EUR mln)	Attributable to shareholders of TenneT Holding				Non- controlling interest	Total
	Paid-up and called-up capital	Hedging reserve	Reserve for exchange rate differences	Retained earnings		
Balance at 1 January 2009	100.0	(1.5)	(3.4)	561.4	8.9	665.4
Profit for the year						
Profit after Tax	-	-	-	72.0	1.3	73.3
Other income and expenses						
Exchange rate differences	-	-	0.6	-	0.3	0.9
Change in fair value	-	(0.8)	-	-	-	(0.8)
Tax payable on change in fair value	-	0.2	-	-	-	0.2
Total recognised income for 2009	-	(0.6)	0.6	72.0	1.6	73.7
Transactions with shareholders						
Dividend 2008 TenneT	-	-	-	(10.0)	-	(10.0)
Dividend 2008 APX	-	-	-	-	(1.5)	(1.5)
Balance at 1 January 2010	100.0	(2.1)	(2.8)	623.4	9.0	727.6
Profit for the first half of 2010						
Profit after Tax	-	-	-	66.5	0.3	66.8
Other income and expenses						
Exchange rate differences	-	-	0.6	-	0.2	0.8
Change in fair value	-	(19.0)	-	-	-	(19.0)
Tax payable on change in fair value	-	4.8	-	-	-	4.8
Total recognised income for first half 2010	-	(14.1)	0.6	66.5	0.5	53.5
Transactions with shareholders						
Dividend 2009 TenneT	-	-	-	(11.0)	-	(11.0)
Dividend 2009 APX	-	-	-	-	-	-
	100.0	(16.2)	(2.2)	678.9	9.6	770.1
Hybrid securities						496.8
Balance at 30 June 2010						1,266.9

Notes to the Consolidated statement of changes in equity

In June 2010 TenneT Holding paid the 2009 dividend of EUR 11.0 mln to its only shareholder, the State of The Netherlands.

Consolidated cash flow statement for the first half of 2010			
(amounts in EUR mln)		first half of 2010	first half of 2009
<i>Operational cash flow</i>			
	Profit after tax	66.8	24.9
	Depreciation & amortisation	78.9	47.8
	Provisions	8.5	(11.4)
		154.2	61.3
<i>Movement in working capital</i>			
	Inventory	1.5	0.1
	Receivables	(398.2)	(8.6)
	Liabilities	311.4	(16.1)
		(85.3)	(24.6)
Cash flow from operating activities		68.9	36.7
<i>Investment cash flow</i>			
	Investment in tangible fixed assets	(135.7)	(129.8)
	Acquisition of subsidiaries	(736.1)	(769.5)
Cash flow from investing activities		(871.8)	(899.3)
<i>Financing activities</i>			
	Loans	848.8	816.4
	Bank overdrafts	4.3	(14.1)
	Dividend	(11.0)	-
	Financial fixed assets	(2.6)	(0.4)
Cash flow from financing activities		839.5	801.9
Change to cash and cash equivalents		36.6	(60.7)
Cash and cash equivalents at 1 January		22.8	85.1
Cash and cash equivalents at 30 June		59.4	24.4
		36.6	(60.7)

Notes to the consolidated cash flow statement

The consolidated cashflow statement only relates to cashflows that are at free disposal of TenneT.

Cash flow from operating activities (excluding movement in working capital) was higher in the first half year 2010 compared to 2009 as a result of the transpower acquisition.

Investments in tangible fixed assets include EUR 49.5 mln for the subsea cable link to the United Kingdom (BritNed).

Loans reflects the net amount, and includes EUR 1,350 mln of new loans issued.

New loans were used mainly for the acquisition of transpower and redemption of existing short-term loans.

Selected accounting principles

1.1 General notes

In February 2010, TenneT Holding B.V. issued debt instruments that are traded on the stock exchange. TenneT Holding B.V. had already chosen to adopt the IFRS standards with a view to ensuring (international) comparability.

Furthermore the interim financial statements have been prepared using the TenneT accounting policies, in accordance with International Financial Reporting Standards (IFRS). These principles can be found in the TenneT annual report 2009, as published in May 2010.

In preparing the figures in these interim statements we comply with IAS 34, with the exception of IFRS 8 – operating segments.

This report does not contain all information required by IFRS for interim financial statements. Therefore, for a full understanding, this report should be read in combination with the annual report 2009.

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

1.2 Application of new IFRS standards effective as of the year 2010

The following new IFRS standards, interpretations or amendments to published standards are applicable to the Group with effect from the 2010 financial year.

Amendments in IFRS 2 – *Share-based Payment*, “Group Cash-settled Share-based Payment Transactions” clarifies the accounting for certain intra-Group share-based payments and entail that IFRIC 8 – Scope of IFRS 2 and IFRIC 11 – *Group and Treasury*

Share Transactions are incorporated in IFRS 2. IFRS 2 is not relevant for TenneT.

Revised IFRS 3 – *Business Combinations*, continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as liabilities subsequently remeasured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the minority interest in the acquiree at fair value or at the minority interest’s proportionate share of the acquiree’s net assets. All acquisition related costs shall be expensed. TenneT has applied the revised IFRS 3 to all business combinations from 1 January 2010.

Amendments in IAS 27 – *Consolidated and Separate Financial Statements* require the effects of all transactions with minority interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard states that when a Parent Company’s control is lost any remaining interest in the entity is remeasured to fair value, and a gain or loss is recognised in the income statement. TenneT has applied the amended IAS 27 to transactions with minority interests from 1 January 2010.

Amendments in IAS 32 – *Classification of Right Issues*. Rights denominated in a currency other than the company’s functional currency are classified as equity instruments under certain conditions. The amendments are not relevant for TenneT.

Amendment in IAS 39 – *Financial Instruments: Recognition and Measurement* clarifies the application of the principles for hedge accounting. It clarifies the

designation of a one-sided risk in the hedged item and inflation in a hedged item. The amendment has had no impact on TenneT's financial statements.

"Improvements to IFRSs" (issued in April 2009) aims to streamline and clarify the accounting standards concerning presentation, recognition and measurement including changes in terminology or amendments of an editorial nature. These amendments have had no or minimal impact on TenneT's financial statements.

IFRIC 12 – *Service Concession Arrangements*. The interpretation provides, among other things, general principles on recognising and measuring the obligations and related rights and assets in service concession arrangements. The interpretation has had no impact on TenneT's financial statements.

IFRIC 15 – *Agreements for the Construction of Real Estate* clarifies when construction and sales of real estate shall be accounted for according to IAS 11 – Construction Contracts, or IAS 18 – *Revenue*, respectively. The interpretation has had no impact on TenneT's financial statements.

IFRIC 16 – *Hedges of a Net Investment in a Foreign Operation* clarifies the accounting treatment in respect of net investments in foreign operations. The interpretation has had no impact on TenneT's financial statements.

IFRIC 17 – *Distribution of Non-cash Assets to Owners* addresses questions on the situation when a dividend is distributed by using other assets than cash. The interpretation has had no impact on TenneT's financial statements.

IFRIC 18 – *Transfers of Assets from Customers*. The interpretation clarifies the accounting treatment of

assets or cash transferred from a customer and thereafter used to provide the customer with goods and services. The interpretation has had no impact on TenneT's financial statements.

1.3 Accounting principles applied to the valuation of assets and liabilities

Tangible fixed assets

The tangible fixed assets consist of highvoltage substations and connections and other assets; many of the assets in question are components of the transmission grids operated by TenneT.

Where the valuation of Dutch tangible fixed assets within the national highvoltage grid is concerned, use has been made of the facility provided for in IFRS 1, which allows tangible fixed assets to be stated at their fair value on the transition date (1 January 2004), whereby this figure is subsequently used as the 'deemed cost price'. The fair value of the national highvoltage grid components is derived from their regulated asset value.

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

Where applicable, the acquisition price or manufacturing cost of an asset does not exceed the investment budget specified by the regulator. The depreciation principles applied have been defined by reference to the regulatory system. Modification and maintenance costs incurred after the initial recognition

of an asset in the financial statements are either included in the book value of the asset, or recognised as a separate asset. Other repair and maintenance costs are included in the profit-and-loss account for the period in which they are incurred.

Investments made at the request and expense of third parties are capitalised after the deduction of thirdparty contributions.

A tangible fixed asset is subject to impairment if its book value exceeds its realisable value. If this is the case, TenneT reduces the asset's book value to its realisable value. The residual depreciation charges are written down over the remaining term of the asset.

On each reporting date, TenneT assesses whether there are any indications that impairment losses recognised in the previous period no longer exist or may have decreased. If this is the case, TenneT reverses the impairment charge.

Depreciation is calculated on a linear basis, assuming the useful life of the various asset types. Land (and its preparation for building) is not subject to depreciation.

Investments funded from auction revenues

With the approval of the Regulator, certain investments in tangible fixed assets are funded by revenues from the auctioning of crossborder interconnection capacity. Auction revenues applied for this purpose are recorded separately as investment contributions and therefore not deducted from the book values of the relevant tangible fixed assets.

Financial assets and liabilities

Financial assets and liabilities are classified as follows:

- Financial assets and liabilities held until maturity: initially stated at fair value and subsequently at amortised cost, using the effective interest method.
- Loans and receivables: initially stated at fair value and subsequently at amortised cost, using the effective interest method.
- Other financial assets and liabilities (including those held for sale): stated at fair value with movements in fair value recorded in equity.

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

Impairment of assets

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

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable

amount is the higher of an asset's fair value less costs to sell and value in use. An impairment is deemed to have occurred if the asset's book value is greater than its realisable value. Any impairment is recognised in the profit-and-loss account.

For the purposes of assessing impairment, assets are grouped at the lowest level which is monitored by management and for which there are separately identifiable cash flows.

Deferred tax assets and liabilities

Deferred tax assets and liabilities that are relevant in the context of forward loss compensation and temporary differences between the fiscal and carrying values of assets and liabilities are calculated on the basis of the prevailing rates of corporation tax applicable at the time of settlement. Deferred tax assets are accounted for insofar as it is probable that future tax benefits will be available to make use of the temporary differences.

Deferred tax assets and liabilities are presented on a net basis insofar as they are associated with the same corporation tax entity, and for the periods in which settlement is expected to coincide.

Deferred corporation tax is recognised on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Inventory

Inventory is stated at acquisition price, using the 'first in, first out' (FIFO) method or, if lower, the realisable value (i.e. the estimated sales return).

Cash and cash equivalents

Cash and cash equivalents are bank account balances and other short-term high-liquidity investments with an original term of up to three months. Negative bank account balances are presented as bank overdrafts.

Loans

Loans are initially stated at fair value minus the associated transaction costs. Subsequently, they are stated at amortised cost, with the difference between the initial valuation and the redemption value included in the profit-and-loss account over the term of the loan. Calculations are made using the effective interest method. Redemption obligations with a term of less than one year are presented as current liabilities.

Investment contributions

The investment contributions included under 'Liabilities' relate to tangible fixed assets owned by TenneT, to which contributions are made out of the auction proceeds. An annual amount equal to the depreciation charges, plus a portion of the operating expenses, is released to 'Other revenues'.

Provisions

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

The provision for environmental management and decommissioning at TenneT serves to cover the costs associated with the disposal of hazardous substances and the decommissioning of abandoned high-voltage connections and underground cables. This includes the costs associated with the required disposal of all kind of grid (e.g. lines, cables) which will be put out of service in the next 15 years. The size of this provision is calculated on the basis of present value.

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

TenneT operate a number of pension and pension-related schemes for the benefit of current and former personnel. At TenneT TSO the pension scheme is treated as a defined contribution plan. Payments to defined contribution plans are charged as an expense as they fall due. The pension scheme at transpower is a defined benefit plan.

The balance of the related assets and defined-benefit obligations are included on the balance sheet. Actuarial gains and losses are recognized directly through equity.

Derivative financial instruments

Derivative financial instruments are stated at fair value. If effective cash flow hedging is employed, any changes in value are recorded in equity using hedge accounting methods.

Effective hedging means that the derivative financial instrument fully compensates any changes in the fair values or cash flows of the hedged position.

In addition, the following information must be documented at the inception of a transaction: the relationship between the hedging instrument and the hedged position, the risk management objectives, and the strategy for undertaking various hedging transactions. This documentation is prepared at the moment a derivative financial contract is entered into and is subsequently kept up-to-date.

If, on the basis of the above mentioned criteria, it is not permitted to recognise changes in the value of derivative financial instruments in equity, the change in value is recognised in the profit-and-loss account as finance income or expense.

1.4 Accounting principles for determining the profit

General

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

Revenue

Revenue for connection services, transmission services and system services is based largely on the tariffs set by the regulator. Deviations in volumes in Germany will be offset in future tariffs. In the Dutch regulatory environment the associated permitted revenue amounts are set by the regulator.

Revenue from energy exchange activities include membership subscriptions, transaction fees and income from services rendered by the energy exchanges.

Revenue from market facilitation services consists mainly of compensation to cover the costs of providing such services.

Interest income consists mainly of interest received on securities and short-term deposits made in the context of energy exchange activities.

Auction receipts

TenneT TSO and transpower auction the available capacity on cross-border connections. Depending on the regulatory system these proceeds are either recognised on the balance sheet (TenneT TSO) or are recognised as revenue (transpower). Accordingly, related spending of auction proceeds is recognised via the balance sheet (TenneT TSO), or as an expense (transpower). This is a result of differences in the regulatory systems.

Under German GAAP the treatment is different from IFRS. Under German GAAP these cash flows are recognised on the balance sheet, resulting in a provision of EUR 270 mln at balance sheet date.

Other revenues

Other revenues consist of the amortisation of investment contributions received in advance.

Operating expenses

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

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

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

Finance income and expenses

The finance expenses consist of interest on loans, current account facilities and other debt positions. The finance income associated with funds managed by the Foundation for the Management of Allocated Funds from the National High-Voltage Grid is added directly to the balances of the assets in question.

Leases

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

Taxes

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

Review report

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

Introduction

We have reviewed the consolidated interim financial information as set out on pages 15 to 28 for the six-month period ended 30 June 2010 of TenneT Holding B.V., Arnhem, which comprises the consolidated balance sheet as at 30 June 2010, the consolidated profit and loss account for the first half of 2010, the consolidated statement of comprehensive income for the first half of 2010, the consolidated statement of changes in equity, the consolidated cash flow statement for the first half of 2010 and the selected explanatory notes. The management board is responsible for the preparation and presentation of this interim financial information in accordance with the accounting policies described in the paragraph 'selected accounting principles'. Our responsibility is to express a conclusion on this interim financial information based on our review. The interim financial information as per June 30, 2009 has not been subject to a review or audit engagement. The comparative figures as per June 30, 2009 have therefore not been reviewed or audited.

Scope

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

Conclusion

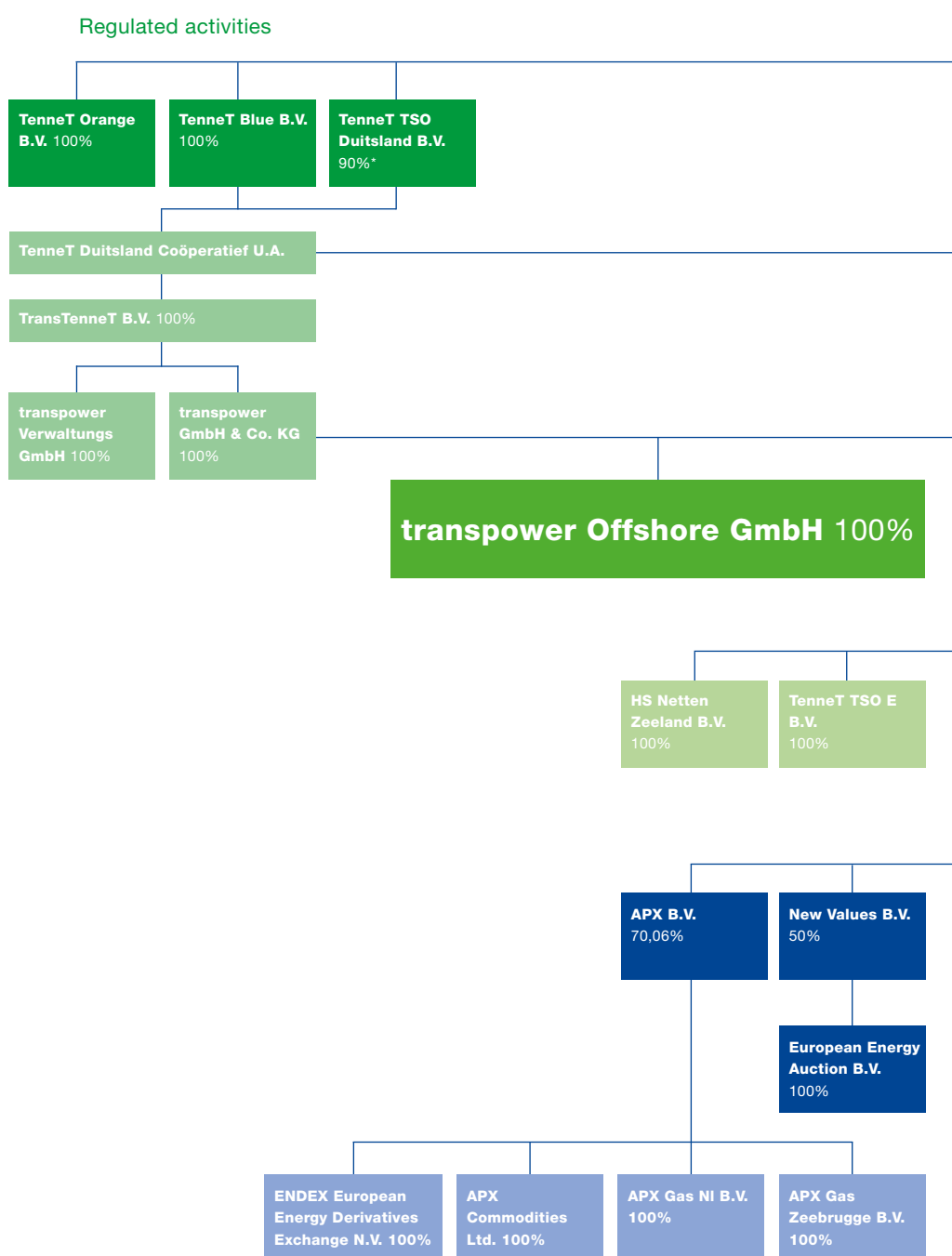
Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial information as at 30 June 2010 is not prepared, in all material respects, in accordance with the accounting policies described in the paragraph 'selected accounting principles'.

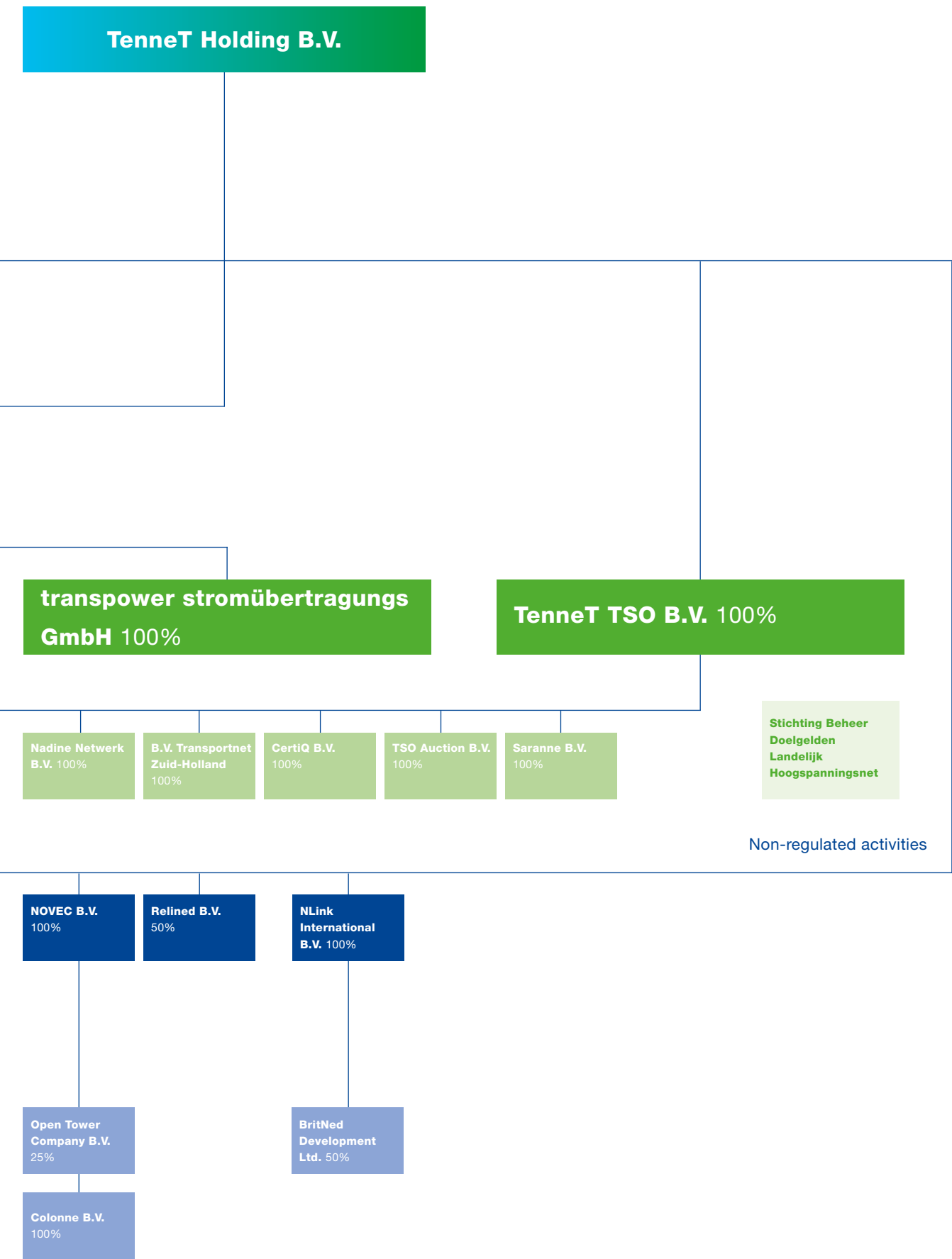
Arnhem, 26 October 2010
PricewaterhouseCoopers Accountants N.V.
drs. C.J.A.M. Romme RA

Annex

TenneT Group legal overview

(as per 30 June 2010)







Disclaimer

These interim financial statements have been prepared using the TenneT accounting policies, in accordance with International Financial Reporting Standards (IFRS). These principles can be found in the TenneT annual report 2009, as published in May 2010. In preparing the figures in these interim statements we comply with IAS 34, with the exception of IFRS 8 – operating segments.

This report does not contain all information required by IFRS for interim financial statements. Therefore, for a full understanding, this report should be read in combination with the annual report 2009.

None of the information in these interim financial statements has been audited.

TenneT is Europe's first cross-border grid operator for electricity. With approximately 20,000 kilometres of (Extra) High Voltage lines and 35 million end users in the Netherlands and Germany we rank among the top five grid operators in Europe. Our focus is to develop a North-West European energy market and to integrate renewable energy.

Taking power further

TenneT Holding B.V.

Utrechtseweg 310, Arnhem
P.O. Box 718, 6800 AS Arnhem
The Netherlands

Telephone +31 (0)26 373 17 17

Fax +31 (0)26 373 13 59

E-mail servicecentrum@tennet.eu

Twitter @tennetsvc

www.tennet.eu

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October 2010

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