

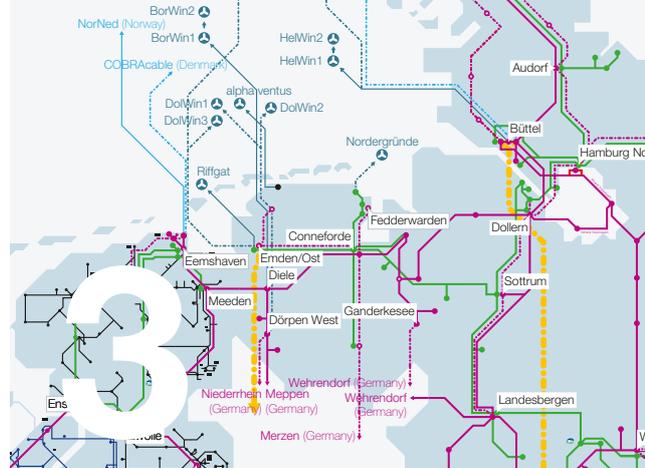
Making the Connection

Integrated
Annual Report 2014
TenneT Holding B.V.

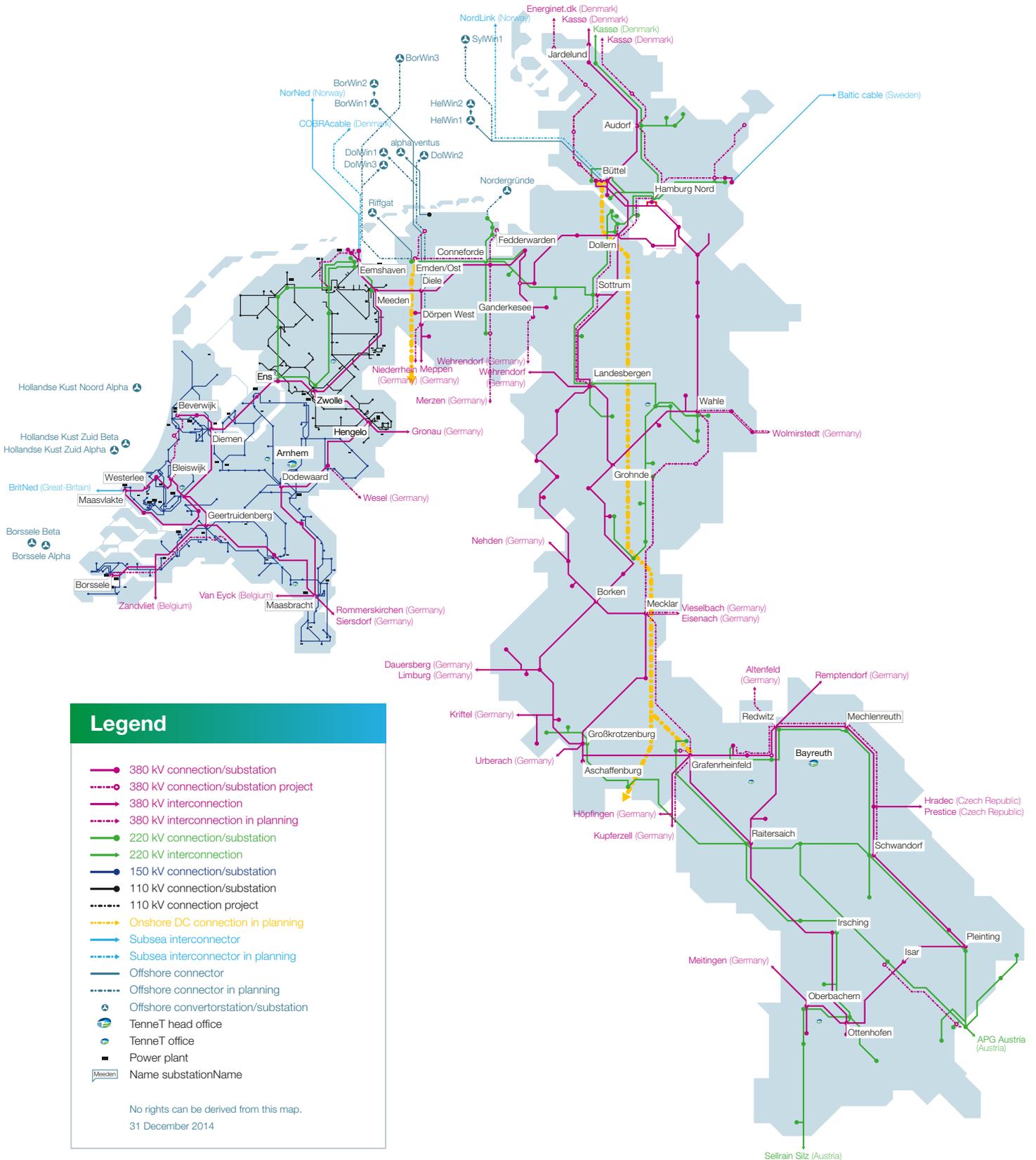


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Gridmap



Profile

About TenneT

TenneT is a leading European electricity transmission system operator (TSO) with activities in the Netherlands and in Germany. We ensure a reliable and uninterrupted supply of electricity in our high-voltage grid connecting the 41 million end-users in the markets we serve. We take every effort 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 five TSOs and works closely with governments, NGOs, trading partners and investors all over the world. Our aim is to ensure essential high-voltage infrastructure is developed, realised and managed efficiently, now and in the future. This covers onshore and offshore grids as well as cross-border interconnections. We are keen to pursue the development of a North West European electricity market.

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

Virtually all of TenneT's activities are regulated. These activities are governed by relevant provisions of legislation, regulation and jurisdiction in the Netherlands and Germany. Regulatory authorities oversee TenneT's compliance with these provisions.

In addition, TenneT is involved in limited non-regulated activities. TenneT Holding B.V. is directly responsible for these activities, which either support the energy market, helping to ensure it operates smoothly and efficiently, or are ancillary to it. TenneT holds a 50% interest in BritNed, a merchant cable operator that manages the electricity interconnector between the Netherlands and Great Britain. TenneT also owns a 71% stake in APX, a North West European electricity exchange. Furthermore TenneT owns NOVEC and has a 50% stake in Relined; these companies manage infrastructure to send and receive broadcasting and telecom signals.

Scope

This integrated annual report describes TenneT's operational, financial and social performance in 2014. It serves to inform our stakeholders about our financial and corporate social responsibility activities. Stakeholder interests are crucial in defining the reporting scope, given how vital our role is for the security of electricity supply in the Netherlands and Germany. To be transparent about our impact as an organisation, we use the Global Reporting Initiative sustainability reporting framework (GRI G4), which gives stakeholders a clear overview of the GRI aspects that are material to TenneT.

Availability

The integrated annual report 2014 is available online as a web-based version and a pdf. The full report is available in English and there are also Dutch and German summaries. The full report or separate sections of the report can be found at www.tennet.eu. TenneT's integrated annual report 2013 was published on 19 March 2014 and is available online.

Stakeholders and Materiality

We defined the relevant topics for this year's annual report based on an analysis of our significant economic, environmental and social impact and an assessment of our own interests and those of our stakeholders. The outcome of this assessment can be found in chapter 'Materiality'. On-going stakeholder dialogue is essential to TenneT, because our activities affect every level of society. The way we interact with our stakeholders is described in more detail in chapter 'Stakeholders'.

To TenneT and our shareholder, the Dutch state, it is important to be transparent about the material aspects that are most relevant. TenneT participates in the Transparency Benchmark (a yearly survey on the quality of external reporting amongst the largest companies in the Netherlands).

Reporting principles

In accordance with the requirement of the policy on state-owned companies ('Nota Deelnemingenbeleid Rijksoverheid 2013'), TenneT complies with the Dutch Corporate Governance Code, which is expressed in the Corporate Governance section of this report.

The financial statements are prepared in accordance with the International Financial Reporting Standards as adopted by the European Union (IFRS) and comply with Title 9 of book 2 of the Dutch Civil Code, (see 'Financial Statements'). The non-financial qualitative and quantitative reporting meets the requirements of the GRI G4 framework, which is explained in more detail in the GRI table.

Reporting process and external assurance

The reporting period is the full-year 2014 and data is comparable with data reported in the Integrated Annual Report 2013. The reported data is obtained from financial and non-financial data management systems. TenneT's Executive Board and senior management contributed to the report content and quantitative data. The report is subject to independent external audit of the financial statements and assurance on TenneT's non-financial reporting. As such, our auditor EY issued an independent auditor's report and an assurance report.



SuedLink launched



Riffgat commissioned

Key events

January

Hans Fischer appointed

J.L.M. (Hans) Fischer joined TenneT's Supervisory Board. Mr Fischer is Chief Technical Officer at Tata Steel Europe and Site Director Tata Steel in IJmuiden.

February

Third-party equity committed to offshore project DoIWin3

TenneT and Copenhagen Infrastructure Partners (CIP) agreed a joint investment in the offshore grid connection DoIWin3 for wind farms in the German part of the North Sea. CIP's total equity commitment to the project amounts to EUR 384 million.

Day-ahead electricity market established

The South Western and North Western Europe day-ahead electricity markets were successfully coupled in a landmark move towards an integrated European power market. Electricity can now be exchanged from Portugal to Finland under a common day-ahead power price calculation using the Price Coupling of Regions (PCR) solution.

Riffgat commissioned

After spending 18 months clearing away 30 tonnes of World War II ammunition, TenneT commissioned the Riffgat AC offshore grid connection project (113 MW) in the German North Sea.

April

Twelfth offshore grid connection awarded

TenneT awarded a consortium of Siemens, Petrofac and Prysmian the twelfth offshore grid connection for wind farms in the German part of the North Sea (BorWin3, 900 MW transmission capacity).

May

TenneT office in Berlin opened

TenneT established a representative office for public and regulatory affairs in Berlin.

June

Offshore grid operator in the Netherlands announced

The Dutch Minister of Economic Affairs announced that he will appoint TenneT as the developer and operator for the offshore grid connections in the Dutch part of the North Sea. TenneT expects to construct an offshore grid for the connection of 3,450 MW of offshore wind in the years to 2023, in line with the Dutch National Energy Agreement.

September

Dutch-Danish interconnector agreed

TenneT and its Danish counterpart Energinet.dk gave final approval for the development of COBRACable. This new, 300 km-long subsea DC electricity connection (interconnector), will directly connect the Dutch and Danish power grids. Completion of the cable is scheduled for early 2019.



Urban Keussen appointed



Randstad 380 kV North Ring

October

Urban Keussen appointed

On 15 October 2014, U.T.V. (Urban) Keussen became Vice-Chair of the Executive Board of TenneT Holding and Chair of the Board of TenneT TSO GmbH. He succeeded Mr Fuchs, who retired on 1 July 2014. On 1 October 2014, Mr Fuchs became a Member of the Supervisory Board of TenneT TSO GmbH.

EIB financing Randstad 380 kV completed

The European Investment Bank and TenneT signed a contract for a EUR 150 million long-term loan, the last instalment of a EUR 450 million financing for TenneT Holding B.V. agreed in 2011. The EIB financing supports the construction and operation of Randstad 380 kV, a 83 km-long, 380 kV transmission connection in the west of the Netherlands.

November

Agreement with 'Stichting Natuur en Milieu' signed

TenneT and 'Stichting Natuur en Milieu' (Nature and Environment Foundation) signed a cooperation agreement for the joint assessment of environmental aspects related to the planned offshore grid in the Dutch North Sea.

December

Construction Randstad 380 kV North Ring started

Construction began on the Dutch Randstad 380 kV North Ring project. About 10 km of the 60 km high-voltage connection will be built underground.

SuedLink launched

The official documents were submitted to the German Federal Network Agency to launch the planning for SuedLink, a 800 km-long DC corridor that will transport wind power from the north of Germany to the industrial south from 2022 onwards. The planning followed 270 interactive dialogues held with members of the public, communities, organisations and regional and federal politicians. TenneT managed to incorporate almost 90 percent of the suggestions resulting from these discussions into the new plans.

NordLink interconnector greenlighted

TenneT gave the green light for its participation in the construction of the 1,400 MW NordLink cable from Germany to Norway, after obtaining the required licensing from the German, Danish and Norwegian authorities. TenneT plans to invest in this interconnector with its partners Statnett SF, TSO of Norway and German development bank KfW.

Key figures

Technical Data

	2014		2013	
	NL	D	NL	D
Substations				
220/380 kV	41	116	40	116
110/150/155 kV	282	6	279	5
Total number of substations	323	122	319	121
HVDC converter locations	2	2	2	2
Connected offshore windparks	-	3	-	2
Circuit length				
150/300/450 kV DC	420	200	420	200
220/380 kV	2,897	10,462	2,897	10,604
110/150/155 kV	6,789	220	6,729	141
Total circuit length (km)	10,106	10,882	10,046	10,945

¹⁾ The Dutch circuit length includes TenneT's 50% part of the 580 km HVDC NorNed cable and the 260 km HVDC BritNed cable. Statnett owns the northern part of the NorNed cable and TenneT the southern part, each part constituting 50% of the interconnector. National Grid and TenneT both own 50% of the BritNed cable through their joint venture company BritNed Development Limited.

Markets / Operations

Society	2014	2013
Grid availability (%)	99.9999%	99.9999%
Interruptions (#)	4	9
Energy not transported (MWh)	77	383

Grid availability (%)

99.9999

Investments (EUR million)

2,296

Leaked SF₆ (%)

0.56

Key figures

Environment

	2014	2013
Leaked SF ₆ (kg)	1,410	1,659
Leaked SF ₆ (%)	0.56%	0.66%
% grid losses of transported GWh	1.00%	0.90%
Carbon footprint CO ₂ emissions (tonnes)	1,404,321	1,250,953

Employees

Employees	2014	2013
Number of internal employees in headcount	2,813	2,593
Number of external employees	431	523
Lost Time Incident Frequency (including contractors)	2.5	4.5
Employee satisfaction (%) ²⁾	N/A	82%

²⁾ Survey conducted bi-annually; not in 2014

Financial

(EUR million based on underlying financial information)	2014	2013	2012
Revenue	2,305	2,243	1,769
EBITDA	1,050	875	608
EBIT	725	620	363
Profit for the year	418	357	180
Investments in tangible fixed assets	2,296	1,868	1,920
Total assets	13,645	11,534	10,284
Net interest bearing debt, adjusted	4,167	3,147	2,694
Equity	3,236	2,593	2,221
Return on invested capital	11.0%	11.6%	8.2%
FFO/net debt	18.0%	18.6%	15.4%

Revenue (EUR million)

2,305

EBIT (EUR million)

725

LTIF

2.5

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



Mel Kroon
CEO and Chair of
the Executive Board



99.9999

Grid availability (%)



Keep the lights on

Letter from the CEO

Making the connection, now and in the future

It is TenneT's job to keep the lights on, whatever the circumstances and challenges we face in a world that is rapidly transitioning to renewable energy. This is what drives us, along with ensuring a stable and secure electricity supply. In this we are successful 99.9999% of the time, making us one of the most reliable TSOs in the world.

To maintain this exceptional level of grid availability will require continuing our high level of investments. TenneT identified this at an early stage and our investment programme is geared toward enabling the energy transition while maintaining security of supply in a drastically-changing energy playing field and managing the introduction of innovative technical solutions into our infrastructure. Although challenging to achieve, we view the integration of the North West European electricity market as the best way to attain an efficient, reliable, affordable and sustainable electricity supply for our customers and to support a successful energy transition.

Renewable energy

Germany is leading the way in the transition to green energy, thanks to the targets laid out in its 'Energiewende' legislation. Other countries – including the Netherlands with its 'Energieakkoord' – are following the same route.

In June 2014, the Dutch Ministry of Economic Affairs announced its intention to appoint TenneT as the sole developer and operator of the country's offshore electricity grid, recognising our vast experience in connecting offshore wind energy to the German grid. The appointment will be confirmed in the revised Electricity Law that is expected to be enacted in 2015.



The introduction of renewables into the European electricity system is fundamentally changing the energy landscape. Unlike traditional fossil-based generators, the energy generated by wind or sun is not constant and cannot be switched on and off to match demand. Keeping the supply stable requires agility and flexibility and large-scale investment in a modern grid that can cope with the variability of intermittent energy production.

As more renewable energy is incorporated into the system, conventional producers are becoming less economically competitive and increasingly, conventional generators are being closed down or mothballed. Market players must work quickly to adapt their business models so their output can be deployed at the fast pace set by the renewable energy feed in.

Integrating renewable energy, particularly if traditional generators fail to step in when renewable energy supply is not available, is a complex and challenging task that puts pressure on TSOs to balance supply and demand to ensure continuity and security of supply. As a leading TSO in North West Europe, TenneT has been close to developments from the start and our insights make us staunch supporters of an energy market design in which all players are responsible for security of supply.

We are proud to have worked alongside the European Commission on the German Green Paper, 'A 2030 framework for climate and energy policies.' Partly as a result of this, Germany is moving away from its plans for a power capacity market and towards a more responsible, balanced market system.

Connecting society

One of our challenges is gaining society's acceptance of our infrastructure. We do this by discussing, listening, and building consensus through an open dialogue. In the past year, we reached out to citizens, politicians, energy companies and NGOs to discuss our plans. In Germany, we hosted many interactive dialogues, of which 270 related to the SuedLink project. Stakeholder dialogue was also crucial in our communication around Dutch projects such as Zuid-West 380 kV. Meetings and information sessions for local residents and other stakeholders have taken place. Keeping sustainability top of mind, we entered into a strategic partnership with Dutch environmental NGO Natuur & Milieu. This cooperation will help to ensure new projects, such as building connections for offshore wind farms, are as compatible with the environment as possible.

During the year, we continued to build new connections on land and sea in the Netherlands, Germany and across borders. When it comes to expanding the grid, it is by definition about very long-term projects that benefit significantly from a favourable investment climate based on appropriate regulation and legislation. We are strong proponents of a truly integrated North West European electricity market. Although challenging to achieve, we view this as the best way to attain an efficient, reliable, affordable and sustainable electricity supply for our customers.

Connecting countries

We continued working on our long-term goal to connect countries by increasing the interconnection capacity in a variety of ways. In 2014, we made important progress. Notably, we are in the process of linking our grid directly to that of Denmark through a subsea cable. After realising this connection, TenneT grids connect nine countries: Denmark, the Netherlands, Germany, Belgium, Norway, Sweden, Czech Republic, Austria and the UK. We are proud of this achievement, which makes us the most-connected TSO in Europe, and are convinced this step will help guarantee efficiency and security of supply for the future.

Besides the interconnection with Denmark – named ‘COBRACable’ – we are working on three other important international projects. These are: NordLink, the first direct connection between power markets in Germany and Norway through a 623 km, 1,400 MW power cable to be realised by the end of this decade; Meeden-Diele, which will increase the capacity of this existing Dutch-German interconnector by 500 MW; and Doetinchem-Wesel (1,500 MW), a new interconnector between Germany and the Netherlands that is expected to be completed in 2016.

Innovation

The integration of renewable energy requires us to install new technology into our infrastructure, such as the VSC HVDC offshore convertor station. Innovation is also important for TenneT to build public trust and acceptance. This is why we have introduced the unique WinTrack pylons, which dramatically reduce the electromagnetic field. In the Randstad project, we are the first to run 380 kV cables underground – a truly ground-breaking innovation that universities will monitor over a long period to assess if such solutions can be safely used more often in the future.

Technical innovations are not without challenges. For example, in our VSC convertor station Borwin Alpha, we have encountered unexpectedly high harmonic electrical vibrations which could lead to a preventive shut-down of the installation. Together with the supplier, the wind park operator and university experts, we are adapting the software settings in order to restore the reliability to the desired levels. It shows that as we push for more innovation, close attention is required to ensure that we can always maintain the highest security of supply.

Strong growth in 2014

In 2014, we continued to grow strongly, and managed our upward momentum responsibly and efficiently.

We have come a long way from our modest origins at the beginning of this century. By integrating the Dutch 110-150 kV high-voltage grids, the 2010 acquisition of German TSO transpower and continuing investments, we have grown by an average of 14% annually and are looking to double our asset base again by 2023. Our staff has grown from less than 200 employees in 1998 to over 2,800 today and this will grow even more as our business continues to develop, particularly in Germany.

The reliability of our grid remained at very high levels throughout this period of rapid growth and we will make every effort to continue to manage this smoothly. Over the coming 10 years, our planned investments amount to approximately EUR 20 billion. Of this, about 90% will be spent on new assets and approximately 10% on renovating our existing asset base. We have a number of key interconnection investments in the pipeline: Doetinchem-Wesel, Meeden-Diele, COBRACable and NordLink. In addition, we also intend to invest in SuedLink and other substantial projects in Germany, while in the Netherlands the focus will be on Randstad 380 kV North Ring and Zuid-West 380 kV. Onshore, we expect to invest approximately EUR 4-5 billion in the Netherlands and EUR 7-8 billion in Germany.

A significant part of our investments will be in offshore, of which approximately EUR 2-3 billion in the Netherlands and EUR 5-6 billion in Germany.

The investments needed to maintain our high levels of security of supply need to be underpinned by appropriate regulatory tariff structures. A robust regulatory environment is imperative for TenneT to strike the right balance between security of supply and efficiency of its operations.

Safety

Safety is crucial to TenneT. We made good progress in 2014; still having 36 lost time injuries and 76 high-risk incidents in 2014 is unsatisfactory to us. As our offshore activities grow, so do the inherent risks of working in this environment. Our contractors currently maintain different levels of safety standards, so work closely with them towards a common and consistent set of criteria. The TenneT Safety Vision 2018 sets out the improvements we need in order to meet the oil and petrochemical industry standards on safety in the coming years. Our contractors are explicitly part of our overall Safety Vision, and expect them to meet our high standards.

Planning for the future

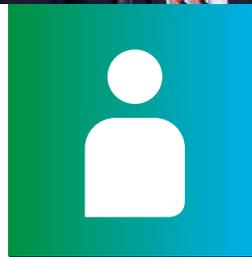
As we look ahead to our intensive growth path, we are proud to say that we are financially well placed for the coming 10 years. We have successfully raised equity from private parties, including from CIP (Copenhagen Infrastructure Partners) in 2014, for offshore projects in the German North Sea. CIP is backed by Danish pension fund Pension Danmark and is not only a robust financial partner, but one with firm understanding and long-term view of sustainable energy. Other key investors in our German Offshore projects are Mitsubishi Corporation and the German Bank KfW. By attracting approximately EUR 1 billion of aggregate equity commitments for our German offshore activities, TenneT has created a solid financial basis for its German onshore and offshore investment portfolio. In the Netherlands, we are supported by our shareholder, the Dutch state. We have also signed a contract with the European Investment Bank for a EUR 150 million loan, part of a total EUR 450 million financing to TenneT Holding B.V. agreed in 2011.

The financing is provided by the EIB to support construction and operation of Randstad 380 kV. With over EUR 1.2 billion of total funds committed, the EIB is our largest funder and has proven to be a reliable and outstanding financing partner for our onshore and offshore high voltage transmission projects.

Needless to say, we could not have accomplished anything this year without the commitment and expertise of our employees, all of whom regularly go the extra mile. I would like to take this opportunity to thank them as well as all our other stakeholders for their ongoing efforts and look forward to working with all again in the year ahead.

Connecting youth

Our young employees are the engine that powers the future of our organisation.



We therefore attach great importance to supporting and investing in them. To this end, five years ago, we established 'Young TenneT' in the Netherlands, a network run by and for the benefit of young employees. It brings colleagues together from across the organisation – onshore and offshore, trainees and managers – to exchange ideas and knowledge. Young TenneT has 454 members and organises a series of regular networking events (22 in 2014), including lectures and field trips.

With employees working in different locations and countries, it is particularly important for TenneT to facilitate and stimulate collaboration, integration and mutual understanding. In 2014, we invited young colleagues to form a committee to launch the Young TenneT network in Germany, laying the foundation for its roll-out there during 2015.

Wesley Snoeren, President Young TenneT, Young Professional, TenneT

“By organising a variety of activities, lectures, excursions, networking activities and sports events, Young TenneT contributes to an engaged company culture. Establishing Young TenneT Germany is an important step forward.”

Henk Sanders, Secretary of the Dutch Works Council, TenneT

“We highly value the active engagement of young employees in our organisation and we hope that the Young TenneT initiative will also lead to more young people getting involved in employee representation and participation in the Works Council.”



Provide
for security
of supply

**Pursue
development**
of integrated and
sustainable NWE
electricity market

Responsible
Engaged
Connected

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

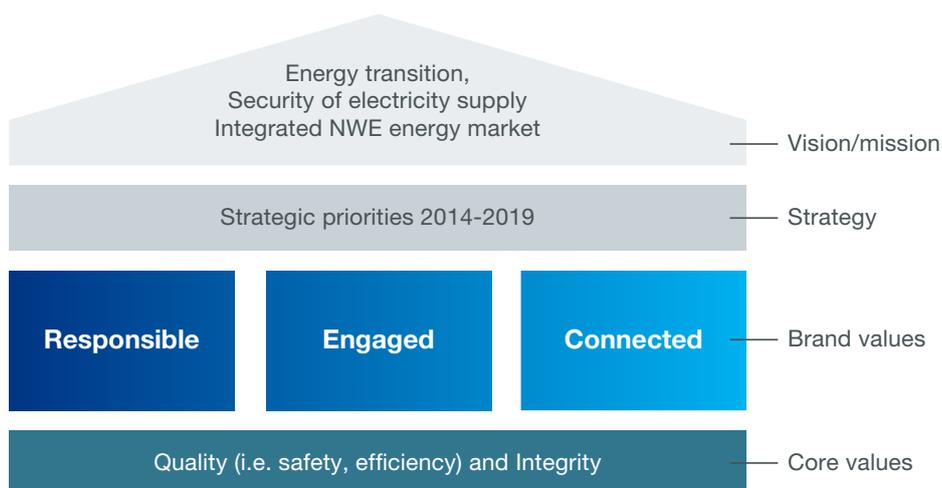
Quality

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.

Vision, mission and 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.



North West
European
market



Strategy

As the transmission system operator (TSO) for the Netherlands and Germany, as well as 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 benefit for society in the most financially viable way for our broad range of stakeholders.

Five strategic priorities

TenneT has developed a strategic programme, that encompasses 5 priorities:

1. Maintain grid reliability

Our objective is to maintain our high degree of grid reliability. TenneT will make further improvements to cope with anticipated developments in the future. Specifically, we will have to maintain, innovate and expand our onshore and offshore grids to cope with the additional capacities needed in connection with the transition to renewable energy.

2. Pursue operational excellence

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

3. Maintain access to equity capital

The size and volatility of TenneT's investment programme (also due to ongoing political and public discussions, in particular in Germany), in combination with regulatory uncertainty, requires flexible access to equity sources to maintain an appropriate capital structure and ensure the company remains attractive to investors.

4. Integrate the North West European electricity market

Our primary focus will be on integrating the central Western European electricity markets. Our ultimate goal is to have a fully integrated European market by 2020 with reliable and stable prices, improved security of supply, efficient use of current interconnector capacity and an integrated wholesale price for electricity. However, this will require further harmonisation of energy policy and European regulation.

5. Facilitate spread and store

To integrate renewable energy sources and for market integration TenneT needs to continue its efforts to build additional interconnectors, long-distance DC connections to the Nordics, a continental DC overlay grid and potential adjacent grids. Distribution and sufficient storage ('spread and store') is necessary to better balance the TenneT grid and create access to renewable energy sources. This will result in a less volatile supply, large storage capacity and different demand curves, thereby helping to realise Dutch and German renewable energy targets in a cost-efficient way.

Enablers

To be able to execute the strategic programme TenneT will focus on a number of enabling factors:

Regulation and legislation

We acknowledge the need for regulatory overview of our activities. Regulation should provide realistic and sufficient incentives to efficiently manage capital and operating expenditure, while providing adequate returns to stimulate new investments. An indispensable part of this is having transparent and predictable benchmarks based on cost and performance. Regulation should give us a stable framework with sufficient control over investment planning, as well as focus on efficiency.

Organisational skills and capabilities

Improving our organisational skills and capabilities is key to achieving our strategic priorities. To this end we launched the Power to Perform programme which among others translates our strategic intent into personal goals for everyone across the organisation. (See chapter 'Employees').

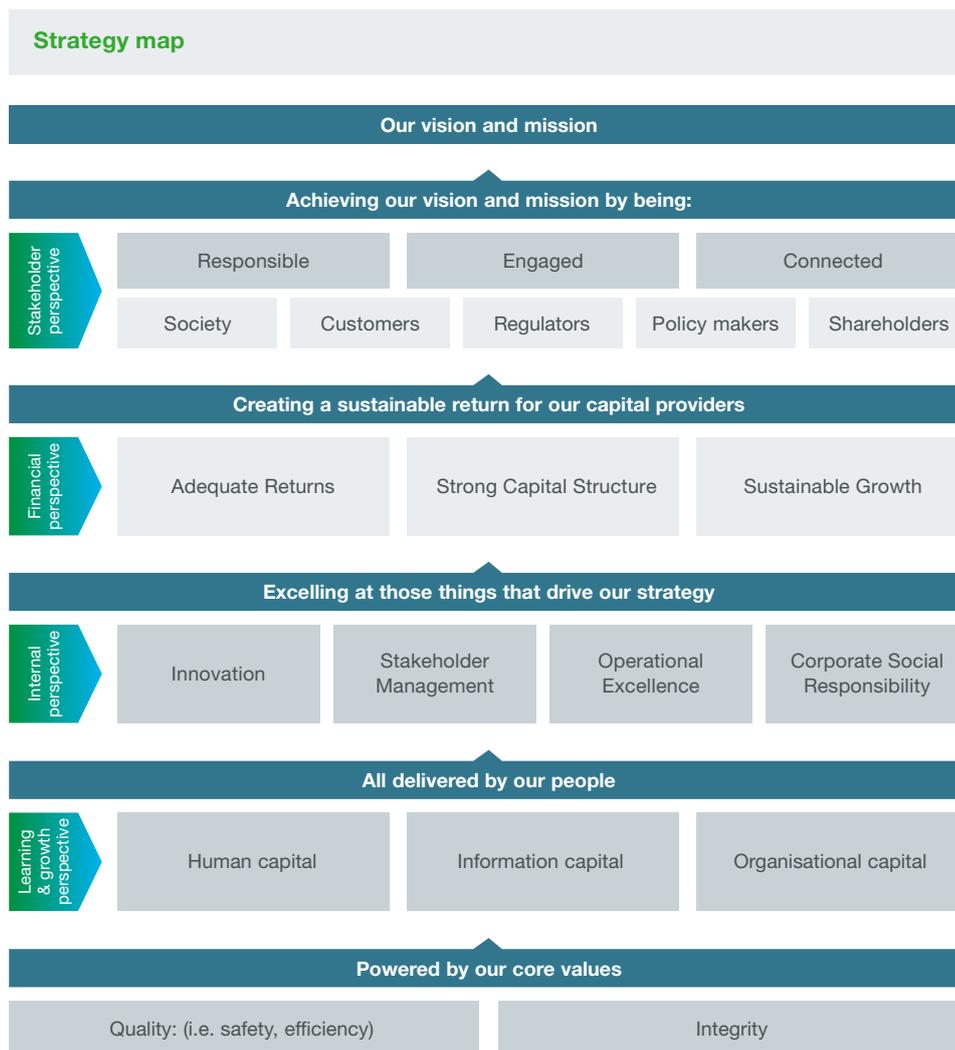
We will continue to invest in a management control framework for large projects (planning, setting targets and evaluating performance) to ensure projects are realised within budget, within time, within quality specifications and meet stakeholder expectations.

TenneT also intends to scale up the organisation and capabilities in engineering, capital projects and adequate control over operational expenditure. Engineering capacity includes support functions, such as tendering, negotiating, planning and permits, and managing contractors.

Strategy map

The strategy map illustrates how TenneT's values and competencies are the basis for value creation for our stakeholders. Only if we provide value to our stakeholders we will be able to realise our strategy.

In the pursuit of our mission and vision, our brand values 'responsible', 'engaged' and 'connected' are guiding principles for the behaviour of our employees.



Business model

TenneT has three core tasks in the Netherlands and Germany, which follow from our appointment as grid operator under the Dutch 'Elektriciteitswet' (E-wet) and the German 'Energiewirtschaftsgesetz' (EnWG).

Our core tasks

Transmission services

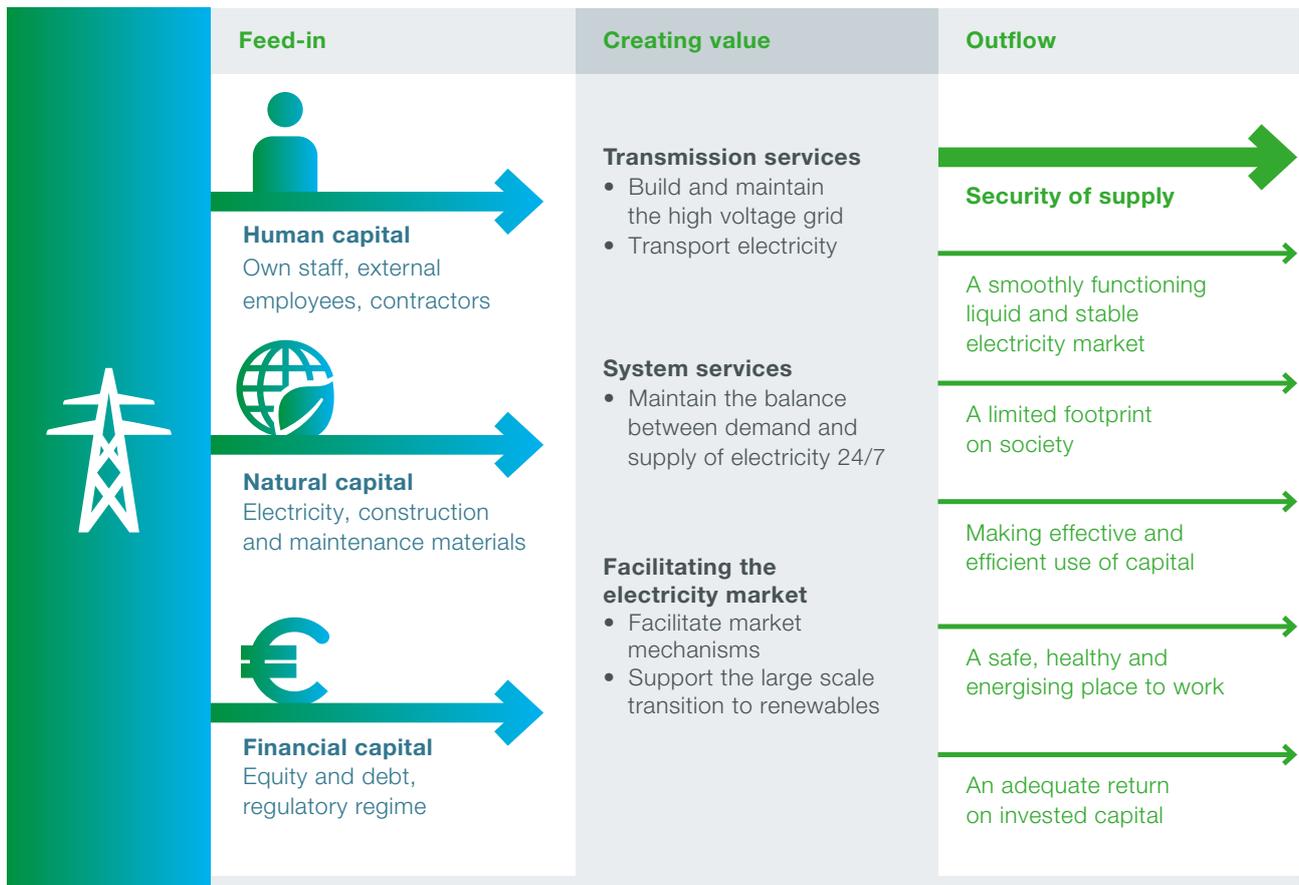
TenneT builds and maintains the high voltage grid that is used to transport large quantities of electricity from producers to consumers in the Netherlands and in a large part of Germany. TenneT also builds and maintains the cross-border inter-connectors with neighbouring countries. The high voltage grid functions as the 'highway' of electricity transmission and connects to the lower voltage grids of regional grid companies and also to certain large industrial users.

System services

TenneT operates the high-voltage electricity system. Because electricity cannot be stored in a direct way, the supply and demand must continuously be kept in balance. TenneT monitors the balance 24/7, 365 days a year.

Facilitating the electricity market

TenneT's third task is to facilitate a smoothly functioning, liquid and stable electricity market and to support the large-scale transition to renewables.



Building and maintaining our grid

TenneT is responsible for securing the uninterrupted supply of electricity, at an efficient cost, and for providing access to the grid in a non-discriminatory way. To achieve its performance targets, TenneT undertakes significant construction and maintenance projects. The asset management model supports the realisation of these projects.

Decisions on the maintenance of the grid and on the realisation of grid extensions are taken in three steps: (1) long-term grid planning, (2) medium-term grid planning and (3) realisation of the annual investment plans.

Long-term grid planning

Long-term grid planning is about setting key performance indicators (KPIs) for evaluating the performance of the grid, including identifying existing and future grid constraints. Based on this, the long-term plan for construction and maintenance activities is conceived.

In the Netherlands, TenneT published its bi-annual Quality and Capacity document 2013 (Kwaliteits- en capaciteitsdocument 2013, KCD 2013) on 1 December 2013. This document contains our forecasts of the required transport capacity and constraints in the Dutch grid in the coming ten years. The plan was formally submitted to the relevant Dutch regulatory body (Autoriteit Consument & Markt, ACM).

In Germany, the four TSOs prepare scenarios which describe possible developments in the German electricity market in the next ten years. Based on these scenarios, each year a ten-year grid development plan for onshore (Netzentwicklungsplan, NEP) and offshore (Offshore-Netzentwicklungsplan, O-NEP) is prepared and submitted to the relevant German regulatory body (Bundesnetzagentur, BNetzA).

Medium-term grid planning

Based on the long-term grid plans and our key performance indicators, TenneT draws up the Annual Investment Plan (AIP), which has a ten-year horizon. This AIP is the basis for the medium-term plan which forecasts the investments and maintenance expenses in the coming three years. This is a risk-based approach, taking TenneT's seven business values into account: safety; quality of supply; customers; environment; financial result; compliance and reputation. These are applied to ensure the right priorities and focus of the investment plans.

Realisation of the annual investment plans

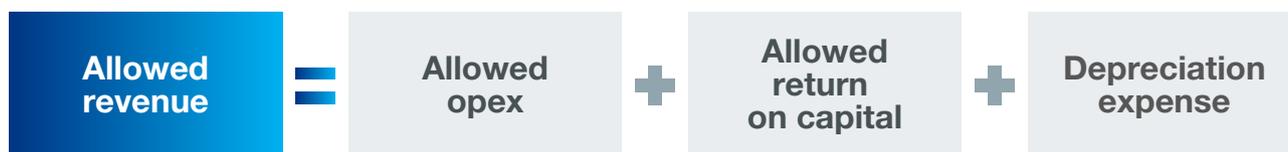
The maintenance and investment plans are carried out on the basis of detailed project plans which consider efficiency, quality and timing targets, the realisation of which is closely monitored during the year.

Regulatory regime

The allowed revenue of TenneT's regulated activities is determined by the regulators in the Netherlands (ACM) and Germany (BNetzA). Regulation is set for a period of three (the Netherlands) and five (Germany) years, including the method of calculating allowed revenue and the key parameters to be used in that calculation. In 2014, the sixth Dutch regulatory period started, which will last until 2016; in Germany the second period of incentive regulation started in 2014 and will last until 2018.

Allowed revenue and tariff income

The allowed regulatory revenue set by the respective regulators comprises the reimbursement of operating expenses (OPEX), a return on invested capital and depreciation expense.



Allowed OPEX

To determine the allowed OPEX, regulators generally distinguish between influenceable and non-influenceable costs.

Influenceable costs are those that can be influenced by TenneT. An example is grid maintenance costs. Reimbursement for influenceable costs is measured against the cost level of an efficient TSO. The regulator uses cost assessments and benchmarks (or similar techniques) to determine such a level.

Non-influenceable costs are dependent on various factors that TenneT has no influence over. Examples are energy and capacity expenses, such as redispatch costs and grid losses. Reimbursement for non-influenceable cost is mainly based on historical cost levels. Differences between budgeted and actual costs are typically settled through future tariff adjustments.

Allowed return on capital

TenneT is allowed to earn a return on the capital invested in its regulatory asset base. In the Netherlands, the return rate is based on a weighted average cost of capital (WACC). In Germany, the regulator distinguishes between a rate of return on equity and a separate cost of debt reimbursement.

Depreciation expense

TenneT is compensated for the depreciation of its investments. The basis for the reimbursement are the capital expenditures deemed efficient by the respective regulator. Benchmarks (or similar techniques) and cost assessments by the respective regulators are used to determine the efficiency level.



Stakeholders

As an organisation with a key role in securing the supply of electricity in the markets we serve, it is vital for us to engage with a wide range of stakeholders, taking into account their questions, concerns and needs. This is particularly the case where our infrastructure projects affect the interests of local communities. We make information easily accessible to our stakeholders, take their concerns very seriously and engage ourselves in minimising any negative consequences of our activities.



Shareholder

**Governments,
political parties
and regulatory
bodies**

**Financial
investors and
rating agencies**

**Local
communities**

**Non-
Governmental
Organisation
(NGOs)**



Employees

Customers

Media

Suppliers

We aim to be among the best in class when it comes to CSR performance and transparent reporting to our stakeholders. We were very encouraged to see this recognised in much higher scores in transparency rankings (2013: 101; 2014: 30) compiled by Transparency

Benchmark and sustainable rating agencies such as Oekom, Vigeo and Sustainalytics following the publication of our integrated annual report 2013. We are also using these scores and analyses to identify further opportunities for improvement.



Shareholder

TenneT is fully owned by the Dutch state, represented by the Ministry of Finance. The policy on state-owned companies ('Nota Deelnemingenbeleid Rijksoverheid 2013') contains the Dutch state's perspective on its shareholder tasks and responsibilities regarding strategy, returns, capital structure and dividends, approval of large investments, remuneration and appointment of board members, and governance. Also in this policy, the shareholder confirms the importance of public ownership of the Dutch high-voltage electricity grid and its commitment to fulfil TenneT's capital needs for the future investment programme in the Netherlands.

Strategic objective

To create value and provide an adequate return on the shareholder's investment, based on solid financial and operational performance.

Progress in 2014

Started a joint study with the shareholder exploring opportunities for cross-participation between TSOs.

Reached our financial and operational performance targets.

Obtained approval of 10 investment proposals for large onshore, offshore and interconnector projects.

Obtained approval to engage with Copenhagen Infrastructure Partners (CIP) in a joint investment agreement, securing additional equity capital on our German offshore activities, and to undertake several debt financing agreements in accordance with our financing plan.

Made progress on Corporate Social Responsibility targets, confirmed by a substantially higher Transparency Benchmark ranking (from 101 to 30).

Continued active and close contacts with the Ministry of Finance on various topics, including participation in the 'Staatsdeelnemingendag' (Government shareholdings day) which they organised.

Priorities in 2015

Reassess strategic direction and priorities, amongst others with regard to cross-participations with other TSOs.

Obtain shareholder approval of investment proposals for several large onshore and offshore projects.

Confirm TenneT's medium-term capital requirements and intended funding by the shareholder, use of strategic equity solutions and debt financing instruments.

Reach agreement on the revision of articles of association as requested by the shareholder, in accordance with principles for good governance.



Governments, political parties and regulatory bodies

TenneT's activities are based on a regulatory framework that is stipulated by the government and overseen and assessed by the regulator. As EU members, the Dutch and German governments fulfil their responsibility in regards to EU energy policy and sustainability goals.

Strategic objective

To closely monitor the political and public affairs arena in order to safeguard the position and reputation of TenneT. To do this, we liaise closely with government, political parties, legislators and regulatory bodies and monitor European targets for the year 2030.

Progress in 2014

Presented TenneT's ideas for electricity market design to government, political and industrial stakeholders in Berlin and Brussels, in several meetings.

Conducted active lobbying focused on the upcoming STROOM legislation, merging existing electricity and gas law (NL).

Presented its Market Review to stakeholders in Brussels.

Various bi- and multilateral talks with MPs (Bundestag and Landtag) on SuedLink and other grid expansion projects on national as well as on a federal state level.

Prepared and published first and second drafts of the grid development plan 2014 for on- and offshore (D).

Held parliamentary face to face meetings in Berlin and other regional capitals with MPs from the German national parliament (Bundestag) and parliaments of the federal states (Landtag) to discuss SuedLink and other projects.

Participated in the Bavarian State Government's 'energy dialogue' (D).

Priorities in 2015

Improve monitoring and intensify contacts with ministries and political parties.

Monitoring and influencing the developments of STROOM.

- In 2015 the applicable regulation will be consulted publicly.
- Monitor the parliamentary discussion.

Closely cooperate with provincial governments in the Netherlands for the implementation of the 6000 MW wind onshore target.

Monitor and influence the electricity market design process in Germany (green paper and white paper by the Ministry of Economic Affairs and Energy).

- Promote TenneT's proposal for an energy 'safety net' (Fangnetz).
- Influence the debate on the "grid reserve" (Netzreserve) and the follow-up of the Reserve Power Ordinance ("Reservekraftwerksverordnung").

Conduct lobbying around proposals for a new German law focused on underground cabling and the grid development plan 'Entwurf eines Gesetzes zur Änderung von Bestimmungen des Rechts des Energieleitungsausbaus'.

Preparation and publication of the German grid development plan 2025 (first and second draft on- and offshore).



Financial investors and rating agencies

Sufficient funding for our extensive investment programme is essential for the success of the energy transition in the Netherlands and Germany. The vast majority of our funding comes from the debt capital markets, i.e. from institutional investors, commercial banks and government sponsored financial institutions (like the European Investment Bank). In order to maintain the minimum targeted credit rating of A-/A3, while also having our funding need covered mainly by debt, we need to fund part of our investment programme with equity.

Strategic objective

To maintain access to equity capital by remaining attractive to a broad investor community, including debt capital markets and private equity, by:

- Securing our strong A-/A3 credit rating.
- Maintaining our sector-leading CSR performance, as benchmarked by independent sustainability rating agencies

Progress in 2014

Maintained our A-/A3 credit rating with Standard & Poor's and Moody's.

Signed an investment and partnership agreement with Copenhagen Infrastructure Partners for the offshore project DoWin3. This proved the attractiveness of regulated German offshore connection projects.

Refinanced its existing EUR 1,125 million and EUR 500 million revolving credit facilities with a single facility of EUR 2.2 billion to support liquidity. The pricing of the facility was decreased and the maturity date was extended to July 2019 with two one-year extension options. During this process, two new banks were added to the core relationship bank group.

Signed a contract for a EUR 150 million loan with the European Investment Bank, the latest instalment of a EUR 450 million financing agreed in 2011. The EIB financing supports the construction and operation of Randstad 380 kV.

Kept our banking partners informed during a well-received annual meeting, including a visit to an offshore platform construction site.

Priorities in 2015

Maintain our A-/A3 credit rating, if required by raising further equity and maintain, compared to our peers, a top 25% industry-recognised CSR rating.

Meet and brief debt capital investors by conducting a European road show.



Local communities

The nature of our business makes TenneT highly relevant and visible at a local community level. We aim to minimise our impact and maximise dialogue, engagement and transparency.

Strategic objective

To secure the understanding and support of communities affected by our work at an early stage, by being transparent about our plans and scope of activities.

To take a proactive approach in our dialogue with local people and politicians listening to their concerns and acting on their suggestions where possible. It is our policy to mitigate and compensate citizens and the environment – where necessary and possible - which are affected by TenneT's activities.

Progress in 2014

Established innovative community relations in respect of a reconstruction project in Apeldoorn. TenneT pursued a social and personal approach by the deployment of social media and close engagement with the neighbourhood (NL).

Provided intensive stakeholder participation for Doetinchem – Wesel project regarding licences, mitigation and compensation, nature measures and the co-development of a landscape plan (NL).

Cooperated closely with Ministry of Economic Affairs to mitigate fierce resistance regarding the route of the Randstad 380kV North Ring project in Oostzaan and the South West 380kV project in Oosterhout (NL).

Organised many stakeholder dialogue meetings for planned infrastructural projects in Germany (e.g. SuedLink).

Established dialogue meetings concerning the Ostbayernring project with citizens and local politicians (D).

Continued successful cooperation with government of Schleswig-Holstein on stakeholder dialogues and accelerated licensing on implementation agreement for the East-Coast-line (D)

Developed and implemented of supporting communication channels and tools, including one-on-one meetings and online and offline materials.

Priorities in 2015

Continue the proactive dialogue for the regions affected by the planned Zuid-West 380kV project (NL).

Involve and inform communities and other local stakeholders impacted by Borssele Alpha (first offshore grid connection project in NL).

Intensify the proactive dialogue on the SuedLink project and on critical projects in West Lower Saxony; and finalise implementation agreements with the government of Lower Saxony (D).

Increase the deployment of social and online media (Twitter, Facebook, TenneT website) to support the engagement process.



Non-Governmental Organisation (NGOs)

TenneT works together with NGOs to look for the best possible way to fit the interests of society as a whole.

Strategic objective

To secure the support of NGOs – this is crucial for our ‘social license to operate’. Their knowledge and networks enrich our perspective and their support builds societal acceptance for our projects.

Progress in 2014

Signed a partnership agreement with Natuur & Milieu in October on ‘Wind op Zee’ (NL).

Liaised with LTO Nederland (the Dutch Federation of Agriculture and Horticulture) especially for large projects with respect to the fees to be paid to land owners and land users for the installation of high-voltage lines (NL).

Cooperated closely with NGOs Deutsche Umwelthilfe and Germanwatch during SuedLink and the projects in Schleswig-Holstein (D).

Started pilot Ecologic Energy Network (EEN) in close cooperation with the Ministry of Economic Affairs (NL).

Launched cooperation with Naturschutzbund Deutschland e.V. Niedersachsen and NABU, the German partner of Bird Life, on biodiversity regarding SuedLink (D)

Organised workshops with NGOs on grid development plan (D).

Hosted the first Best Grid workshop in Hamburg in May in conjunction with Renewables Grid Initiative and with the participation of many European NGOs (D).

Priorities in 2015

Seek support and cooperation for offshore and onshore wind integration (NL).

Continue cooperation with Natuur & Milieu and on SuedLink with Renewables Grid Initiative and Best Grid.

Monitor developments and seek for support around key issues such as need for grids, social acceptance and biodiversity.

Stakeholders



Employees

TenneT wants to be an employer of choice, creating one of the best places to work in the European energy sector.

Strategic objective

To empower our people to perform, connecting their personal ambitions to our strategic goals. In return, we create a safe, healthy, stimulating and energising place to work. To build on our HR-vision called 'Empowered by You'. This focuses on four areas: talented employees, inspiring leaders, a stimulating work environment and teamwork for excellence.

Progress in 2014

Roll out of 'Empowered by You' vision.

Pilot 'Power to Perform' programme in three departments.

Introduced 'Safety Vision 2018' supported by safety awareness campaign.

Extended management development programme to team managers.

Developed corporate Training & Development for project management.

Launched 'TenneT Academy' in NL to support personal development.

Priorities in 2015

Support the business further with implementing Power to Perform.

Implement HR Information System (NL).

Continue safety awareness campaign.

Stakeholders



Customers

We offer our customers a continuous and secure supply of electricity, anytime (24/7) and anywhere in the Netherlands and across large parts of Germany, now and in the future.

Strategic objective

To offer customers non-discriminatory access to a range of services with an excellent price/performance ratio.

To promote and facilitate the further integration of the North West European electricity market.

To promote and facilitate the integration of renewables into the energy mix.

To help shape the development of the energy market by sharing its expertise and experience; addressing issues such as market design and integration of renewable energy.

Progress in 2014

Implemented several projects for coupling European markets. E.g. the PRC solution, which enables the North Western Europe region to operate under a common day-ahead power price calculation.

Released a 2014 'Market Review'.

Realised a customer satisfaction of 95% (D) and 86% (NL).

Organised 3 customer platform meetings.

Priorities in 2015

Develop and implement legislation, contracts and grid requirements for offshore wind (NL).

Develop grid connections and grid development plans for onshore wind.

Develop interconnection between the Dutch and Danish markets (COBRACable) and the German and Norwegian markets (NordLink).

Improve security of supply by rules and procedures.

Set up a new customer portal, 'MyTenneT'.

Conduct a customer satisfaction survey.

Commission five DC offshore grid connections to connect offshore wind farms (D).



Media

On a daily basis, TenneT's press officers are in contact with journalists representing a wide range of media.

Strategic objective

To inform the general public and stakeholders about our mission, vision and activities in a positive and credible manner and to build trust, corporate reputation and increased support and understanding for our activities.

Progress in 2014

Organised media interviews and press events around strategic subjects, important projects and milestones, e.g.: offshore platforms, contract-signings, and construction activities.

Implemented a media monitoring and analysis system in order to measure and understand the impact and value of our media exposure.

Strengthened relationships with key journalists.

Priorities in 2015

Engage media in our strategic objectives.

Embed media understanding of our role as European TSO and emphasise the importance of an integrated European energy market.

Further strengthen relationships with key journalists.



Suppliers

TenneT works in close partnership with its suppliers, recognising their importance for its operations. We work together on integrated solutions for design, engineering and execution, focusing on a standardised approach that maximises efficiency. In this way, our suppliers are key partners in the value chain.

Strategic objective

To achieve the optimum quality, terms, timing and delivery of the goods and services we purchase. We pay particularly close attention to supporting TenneT's safety vision by improving the management of our contractors, through close communication and adherence to performance and safety measurement. Objectivity, transparency and non-discriminatory behaviour are our leading principles, based on European tender regulations.

Progress in 2014

Organised supplier days and market consultations.

Briefed suppliers and peers on safety aspects in contractor management and procurement processes.

Procurement programs defined and commenced for connections, stations, maintenance and management.

Commenced pilots for procurement of turn-key and EPC-type projects.

Optimised TenneT-wide implementation of new procedures for contract management and project execution.

Priorities in 2015

Support TenneT's safety vision and create a safety collaboration culture with TenneT's suppliers and servicers.

Strengthen e-purchasing channels

Alignment of market approaches in Germany and the Netherlands.

Drive efficiency through innovative and market-focused sourcing strategies that support TenneT's investment programme and the efficient maintenance and operation of its grid.

Implementation of a supplier performance management scheme.



Society,
Markets,
Environment
and
Employees

GRI G4

Materiality

The relevant topics for this year's annual report are defined based on an analysis of TenneT's significant economic, environmental and social impact and an assessment of our interests and those of our stakeholders. The materiality analysis is fundamental to integrated reporting as it shows the topics that are material to the interests of our different stakeholders and could influence their decisions. This enables us to meet the required level of transparency our external stakeholders expect.

This materiality analysis is carried out according to the GRI G4 guidelines for sustainability reporting and considers economic, environmental and social aspects. We have translated these generic aspects into topics that are relevant to TenneT, such as grid losses and oil leakage in our operations. These topics are reviewed against the interests of our stakeholders using input from benchmarks, peer reports, employee engagement surveys and external publications.

The materiality analysis was validated by senior managers at TenneT responsible for Asset Ownership, Customer & Markets, Human Resources, Corporate Communications, Public Affairs and Control and Reporting, – who confirmed the final list of material aspects to be included in the 2014 annual report. The fact that we report on selected topics that are material to our business does not mean we do not manage other non-reported aspects. Our CSR policy and activities are broader and are not limited to the outcome of the materiality analysis.

The outcome of the materiality analysis shows that the scope of this report with respect to non-financial aspects is our TSO operations in the Netherlands and Germany. This means that we show the policies, systems, targets and performance of our regulated activities only.

GRI

For the purpose of this annual report TenneT has chosen to apply the GRI G4 accordance level 'core', which requires the essential elements of a sustainability report. This integrated report contains information about our economic, environmental, social and governance performance and its impact.

The GRI table in the appendix shows which GRI aspects are material to TenneT and refers to the section in the report that describes this aspect.

Materiality topics



Legend

Markets	Society	Environment	Employees
1 North Western European electricity market	5 Community engagement	15 SF6 emissions	27 Employment
2 Guarantees of origin (CertiQ)	6 Connecting citizens	16 Oil leakages	28 Notice period in case of organizational changes
3 Customers	7 Electromagnetic field	17 Grid losses	29 Occupational Health and Safety (employees and contractors)
4 Transition to an integrated market	8 NGOs	18 Energy consumption stations	30 Training and education
	9 Company code	19 Travel distance (air, train, car)	31 Diversity
	10 Political contributions	20 Water	32 Equal Remuneration
	11 Future of energy supply	21 Biodiversity	33 Procurement practices related to labor
	12 Compliance Society Incidents	22 Carbon footprint	34 Non-discrimination
	13 Procurement practices related to society	23 Waste	35 Freedom of Association and Collective Bargaining
	14 Complaints on society aspects	24 Environmental Incidents	
		25 Procurement practices related to environment	
		26 Complaints on environmental aspects	

Covered in report

Stimulating open dialogue

TenneT plays a leading role in the fast-changing European energy market and the debate surrounding it.



To stimulate an open and engaged dialogue, TenneT initiates discussion platforms, such as 'Impuls Platform' in the Netherlands and 'Kraftwerksforum' in Germany.

In June 2014, Impuls Platform discussed the progress of the 'Nationaal Energieakkoord' (National Energy Agreement). One of the conclusions was that many industry players are already looking well beyond 2023, when the Energieakkoord needs to be implemented and a fully sustainable energy market is developing. In October, a further session was held to explore the integration of the North West European market. It concluded that countries need to co-operate more in order to better utilise existing production capacity, and that regulation should be harmonised more on a European level.

The Kraftwerkforum Forum met in October 2014, discussing the political, technical and economic challenges of the German Energiewende, including network development and stability.

Gineke van Dijk, Senior manager Customer and Markets, TenneT

"The Impuls Platform gives TenneT a better insight into the thoughts and interests of our stakeholders on strategic subjects. By basing our services on this, we can better anticipate market needs."

Marcel Galjee, Director Energy, AkzoNobel

"As one of the largest energy consumers in the Netherlands, AkzoNobel gave a presentation at the Impuls Platform on the importance of energy-intensive industries. The diversity and seniority of participants led to a fascinating discussion. It's a great way to share opinions and spark fresh thinking."



Ensuring the right connections are made, **now and in the future**

High customer satisfaction

Markets

The electricity market in Europe is going through a period of transformation and fragmentation. Transmission grids are being fed by more sources of renewable energy, simultaneously leading to an increase in decentralised production. The transition to a sustainable energy future is fundamentally changing the way the market is organised. As a key player in the European electricity market, TenneT seeks to play a leading role in this changing landscape and the debate surrounding it, ensuring the right connections are made, now and in the future.

Balance in Europe

When it comes to renewable energy, the Netherlands and Germany are at different stages of their development, the latter leading the way in terms of share of renewable energy sources in the energy mix, as determined by its 'Energiewende'. The Netherlands has a comparable National Energy Agreement ('Energieakkoord').

In Germany, TenneT is making a major contribution to ensure that offshore wind farms can be connected to the onshore high-voltage grid. TenneT connects more than 7,000 MW in the years till 2019.

During 2014 the Dutch Minister of Economic Affairs announced his intention to appoint TenneT as grid developer and operator for the offshore electricity grid in the Dutch part of the North Sea. In line with the National Energy

Agreement, TenneT expects to construct additional grid connections for offshore wind farms with a total capacity of 3,450 MW in the years until 2023.

While these developments support the drive for a more sustainable energy future, the increasing feed-in of intermittent renewable energy sources is significantly affecting the market. Traditional generation units, especially gas-fired and coal-fired power plants, are increasingly being closed down or mothballed. With more renewable energy feeding into the market, generating against near-zero marginal costs, the future for conventional generators will mean operational hours decreasing further in the long run. As these traditional generators have always supplied the necessary services to balance energy within the system, their decreasing capacity poses challenges from a system operations perspective.

Markets

TenneT is keen to share its expertise and experience to help shape the development of the energy market, addressing issues such as market design and integration of renewable energy. For this we are actively connecting with other TSOs and national and international stakeholders on these issues. The current debate is focused on the changes necessary to establish an efficient and sustainable electricity market design; providing the right long-term incentives to invest in generation capacity (especially steerable generation capacity and/or storage) and delivering the necessary services to keep the system balanced.

At the same time, TenneT continues to look for flexibility, in terms of demand response and storage, and new partners to maintain an efficient and secure power system. In this, it is crucial that renewables, which are subsidised and whose share in the system is increasing, also become fully balance-responsible in Germany, similar to conventional power plants.

As a follow-up to the Dutch National Energy Agreement, TenneT prepared advice on offshore wind energy and the key role we want to play in that sector. In Germany, the debate focused on the impact and pace of the transition to renewable energy, its consequences on the market and on our business. Here, we had meetings with officials on 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.

Shaping Markets

TenneT contributes to the integration of North West European electricity market by actively facilitating market coupling. Market coupling has benefits for energy consumers in the coupled region: harmonised electricity prices; more efficient use of existing cross-border electricity interconnections and greater security of supply.

To create a strong European market, more integration is needed between TSOs on the one hand and electricity exchanges, where electricity is traded, on the other hand. Further market integration will improve the transport of electricity across national borders and make the buying and selling of capacity more efficient and ultimately more cost effective. A more even European playing field for energy prices will be to the benefit of everyone. And by actively participating in European organisations such as ENTSO-E (European Network of Transmission System Operators for Electricity) TenneT makes its voice heard.

For effective functioning of the European market, a robust international transmission grid is needed, so TenneT is investing more than ever in expanding its high-voltage grid and in new cross-border interconnections such as COBRACable, NordLink and Doetinchem-Wesel. In collaboration with neighbouring German TSO Amprion, we also increased existing transmission capacity on the Dutch-German border by 100 MW in 2014. The imports and exports to TenneT's grid show that our grid in Germany is importing and exporting more electricity compared to last year, due to the increased amount of renewable energy.

Imports and exports TenneT NL (GWh)

2014 Imports	32,156
2013 Imports	33,253
2012 Imports	32,854
2014 Exports	15,046
2013 Exports	15,016
2012 Exports	18,129

Imports and exports TenneT D (GWh)

2014 Imports	55,903
2013 Imports	51,277
2012 Imports	48,959
2014 Exports	47,397
2013 Exports	44,820
2012 Exports	41,563

TenneT actively supports the development towards an integrated North West European electricity market and even beyond (e.g. Spain/Portugal, Central Eastern Europe). To this end TenneT implemented several projects in 2014, working closely with partners and stakeholders. In February, the South Western and North Western Europe day-ahead markets were successfully coupled. Electricity can now be traded from Portugal to Finland under a common day-ahead electricity price calculation using the Price Coupling of Regions (PCR) solution.

Looking ahead, our focus will shift towards the integration of balancing markets. This should improve the way the European wholesale power market functions, including helping to reduce price disparity between markets.

In addition, TenneT expressed its readiness to help Belgium through severe winter periods. The Netherlands have ample electricity production capacity to meet its own domestic demand in the coming years. Belgium currently has a production capacity shortfall of 3,000 MW because of the shutdown of the Doel and Tihange nuclear power stations. This may cause problems in extremely cold periods because demand for electricity will then exceed supply. Elia (the operator of the Belgian high-voltage grid) together with neighbouring TSOs – including TenneT – jointly worked out a set of emergency measures to avoid forced power cuts or possible black-outs in Belgium. Safeguarding grid security is an important principle in this regard. This will prevent a situation where a problem in the Belgian electricity grid affects the supply of electricity in the Netherlands and neighbouring countries.

Customer Satisfaction

TenneT regards its relationship with customers as a business partnership, collaborating with them and proactively seeking to fulfil each other's requirements. TenneT stimulates discussion on relevant topics, by organising recurring stakeholder dialogues, like 'Platform Impuls' and 'Kraftwerksforum' and meetings with balance-responsible parties and connected parties.

In terms of customer satisfaction, TenneT shows good performance. In Germany, customer satisfaction is 94% and in the Netherlands 86%. Customers were positive about TenneT's communications and regular interactions.

Renewable Energy Law („EEG“)

In Germany a Renewable Energy Sources Act (Erneuerbare Energien Gesetz – EEG) is in place which promotes the generation of electricity using renewable energy sources (RES). The Act obliges system operators like TenneT to convey renewable energies prior to other energy sources. The remuneration for renewable energy that must be paid by TenneT to the RES plant operators is legally fixed by means of pre-determined feed-in tariffs and includes a bonus.

The purchased renewable energy is sold by TenneT at the energy exchange via service providers at regular market prices which are significantly below the pre-determined feed-in tariffs paid to the RES plant operators. The related price difference is in principle charged to all energy suppliers and ultimately paid by the electricity consumers in Germany by means of the so-called EEG levy ("EEG-Umlage"). The EEG levy is added to the regular electricity price of the end customers.

The EEG levy is determined on a yearly basis and includes for instance estimates on weather conditions (i.e. wind and solar in-feed) and market prices. Differences between the actual net costs incurred and the EEG levy are settled in the EEG levy of the subsequent year. For TenneT the EEG reflects a pass-through item comprising fluctuations in receivables and payables without any effect on actual results and statement of income. Due to the high volumes and amounts, our working capital and cash flows are heavily impacted by EEG. Especially differences between estimated and actual volumes and prices can result in significant changes in working capital and cash flows from one year to the other.

Guarantees of Origin

Consumers no longer see energy as a mere commodity; they increasingly place a value on the environmental credentials of the energy they consume. 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. These Guarantees of Origin (GOs) – as these certificates are called – are the only proof of sustainably-generated energy accepted in the Netherlands. Therefore they are vital to secure transparency on the origin of energy for suppliers and consumers. This reliable information enables end-users to use GOs to claim their green consumption.

Markets

GOs can also be traded within Europe. This helps to build an integrated and strong internal energy market. Since 2009, members of the EU are obliged to recognise each other's GOs. Every year and also in 2014 European countries implement GO systems in their markets and connect to others in Europe. This requires consensus between a growing number of Member States on the pre-requisites for GOs. 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.

CertiQ's data on renewable energy production is used by the Netherlands Enterprise Agency (Rijksdienst voor Ondernemend Nederland, RVO) to help determine the

support they provide for Dutch renewable energy production. As of 2013, CertiQ also issues GOs for renewable heat.

In 2014, CertiQ issued 11,4 million certificates for electricity generated in a sustainable manner in the Netherlands, a decrease compared to 2013. In 2014 the number of GOs supplied for proof of green consumption decreased from 40 million in 2013 to 38 million in 2014. Apparently there was less demand for GOs in 2014. The number of registered installations for the production of sustainable energy decreased from 12,401 in 2013 to 12,096 in 2014.

For further information on this topic, we refer to the website of CertiQ.

Certificates issued (million)

2014 NL	11.4
2013 NL	12.1
2012 NL	12.8

Registered installations (#)

2014 NL	12,096
2013 NL	12,401
2012 NL	11,876



Modern society is powered by electricity

99.9999

Grid reliability (%)

4

Interruptions

Society

Modern society is powered by electricity. From PCs to traffic lights and from home appliances to mobile phones, we all rely on electricity. It is TenneT's job to keep the lights on, underpinning the fabric of our society and guaranteeing the supply of electricity to 41 million end-users. We take this responsibility very seriously and reach out to all our stakeholders to keep society connected, now and in the future. Society is expecting more and more renewable energy to be produced – a development where TenneT sees a crucial role for itself to facilitate this. Gaining acceptance from society for our extensive investment programme, which raises concerns about biodiversity, safety, electromagnetic fields and landscape pollution, is challenging and of high importance to us.

A stable and secure power supply is our reason to exist. In 2014, we achieved 99,9999% grid availability, making our grid one of the most reliable in the world. The strong growth of renewable energy is putting pressure on grid stability and making it harder to retain this high level. This is because

wind and solar power are volatile as they depend on the weather. TenneT is playing an active role in ongoing discussions in the Netherlands and Germany and also in the European market, about how to deal with the changing landscape and secure a reliable and sustainable energy grid.

Society

	2014	2013	2014	2013	2014	2013
Grid reliability	NL	NL	D	D	Total	Total
Total						
Grid availability	99.9999%	99.9999%	100.0000%	100.0000%	99.9999%	99.9999%
Interruptions	4	9	-	-	4	9
Energy not transported (MWh)	77	383	-	-	77	383
110/150 kV						
Interruptions	4	7	N/A	N/A	4	7
Energy not transported (MWh)	77	80	N/A	N/A	77	80
220/380 kV						
Interruptions	-	2	-	-	-	2
Energy not transported (MWh)	-	303	-	-	-	303

Connecting citizens

To continue to meet society's electricity needs will require new power lines to facilitate the energy transition, or replacing existing ones. We do all we can to minimise the impact of our activities on communities. From the earliest stages of a project we initiate a dialogue with all the parties involved – local, regional and national governments, NGOs and citizens – listen to their concerns and address these as far as we are able and incorporate suggested improvements. Being more transparent about projects can initially create more resistance, but in the long run it supports credibility and sustainable relationships with society.

This collaborative approach was initiated based on our experiences in the Netherlands and Germany. For instance we proactively communicated with communities, citizens and other relevant stakeholders near the planned Zuid-West 380 kV project in the south of the Netherlands. In September 2014, the Ministry of Economic Affairs decided that the route for the planned high voltage connection from Borssele to Tilburg should be changed between Roosendaal and Tilburg. This led to much unrest and concern among local communities.

In Germany, we have been talking extensively to citizens, communities and politicians about SuedLink. This 800 km electricity highway will be directly linked to NordLink, which connects Germany and Norway, and will transport renewable energy from onshore and offshore wind farms in the north of the country to its industrial centres in the south. It is thus essential for Germany to realise its Energiewende ambitions.

Throughout 2014, we hosted 270 public meetings and talks as part of the project dialogue for SuedLink to inform people about the project and address their concerns. This included talking to local and regional municipalities. The discussions have not only helped to counter some of the initial opposition to the project but also to include the ideas of citizens and politicians in the planning for SuedLink.

Suggestions from the public have helped TenneT to improve project planning. TenneT's infomarkets concept was recognised as 'Good practise of the Year' by the Renewables Grid Initiative (RGI).

Our efforts to involve the community were also recognised by the International Public Relations Association, which awarded TenneT two IPRA Golden Awards for Excellence in 2014 in the categories of Crisis Management and Community Relations.

To address public concerns related to biodiversity, safety, electromagnetic fields and landscape pollution, we are incorporating new technologies such as underground cabling and pylons with a smaller electromagnetic field. We work with NGOs like Natuur & Milieu for 'Wind op Zee' and Naturschutzbund Deutschland (NABU) in Germany to look for the best possible way to make projects fit into the environment. Improving our relationships with NGOs is an ongoing challenge, but it is an effort that pays off. One remarkable success is that German NGOs NABU and BUND publicly declared renunciation action against the West Coast Line.

More examples of biodiversity related to TenneT's projects can be found in the Environment chapter.

Cooperating against copper theft

Another societal issue TenneT paid particular attention to in 2014 was reducing copper theft in the Netherlands. Copper theft poses serious risks, not only for the perpetrators, our employees and residents living near our installations, but also for the reliability of our grid. As a result of a joint operation with Dutch police, the national prosecutors office and metal recyclers, the number of thefts halved in 2014, falling to 53 from 91 in 2013. Among other things we introduced cameras and observation teams to monitor pylons and substations, and at 70 substations we applied synthetic DNA on our copper so that we can trace stolen copper that is TenneT property. The cooperation with the Dutch police and public prosecutors led to several prosecutions in 2014, with a further three cases pending. In Germany, our efforts are concentrated on protecting our premises against theft and we introduced two pilot projects to improve security at substations.

Influencing the discussion

TenneT has gained a reputation as an impartial and informed expert whose opinion is valued by decision-makers in the political discussion around the future of energy in Europe. For example, our views on a sustainable market design and the growth of renewables have been widely discussed and were often met with approval. As such, they have been incorporated in the German governments green paper, outlining its energy strategy for the future. These discussions are essential to secure funding for the grid development needed to keep the power on in Europe.

We are in ongoing talks with other European TSOs to align grid development plans. TenneT initiatives in 2014 to connect European energy markets included the 300 km-long subsea COBRACable that will link the Dutch power grid to Denmark's in early 2019 and the NordLink subsea cable between Germany and Norway.

TenneT is partner of the EU-funded project BestGrid, which tests and evaluates best-practice approaches for obtaining permits and increasing public acceptance of grid expansion projects in North West Europe. BestGrid also connects TSOs with NGOs such as BirdLife Europe and Germanwatch.

Taking care of the environment

Renewable energy generated offshore in the German North Sea cannot be transported onshore without some environmental impact.



While making all efforts to minimise this, TenneT undertakes a wide range of compensatory measures and conservation projects.

An example is in the Wadden Sea National Park in Lower Saxony, with a project compensating for the grid connection to Germany's first offshore wind farm, alpha ventus. In Ostheller, Norderney, the diversity of vegetation and birdlife was found to be lower than in natural salt marshes. Work over eight hectares in 2008 and 2014 restored a more natural salt marsh vegetation, soil moisture and salinity creating an improved habitat for breeding and migrating birds.

In the same park, TenneT commissioned a 10-year programme to monitor vegetation and breeding birds. This will give a better insight into the morphology of the area, home to plant species such as the sea aster, birds like the redshank and the barnacle goose, and numerous species of insects.

Sandra Krättschmer, Project Manager, Near- and onshore permits, TenneT

"It was great planning and implementing the large-scale project to restore the natural environment in the Leybucht. It's given the landscape back its original energy, making it more attractive as a habitat for breeding and migrating birds. It's nice to see how the area is developing."

Bernd Oltmanns, Project Manager, Lower Saxony Wadden Sea National Park

"The Mittelplate is the biggest salt marsh complex on the mainland coast in Lower Saxony's Wadden Sea National Park. It was therefore important to us to develop this area in the sense of a national park, in other words by excluding human influence as far as possible."



Transport electricity
in a safe, efficient, reliable and sustainable way

0,56
Leaked SF₆ (%)

Limit and compensate impact of our activities on nature

Environment

Our main objective is to transport electricity in a safe, efficient, reliable and sustainable way. To power homes and businesses, energy has to travel long distances across many different landscapes. This inevitably has an effect on the environment. TenneT takes measures to limit and compensate the impact of its activities on nature – in terms of landscape or biodiversity. Beyond taking measures to limit and compensate for our own carbon emissions, we also contribute to reducing the overall carbon footprint of the Netherlands and Germany by facilitating the transition to renewable energy, in line with European Union targets.

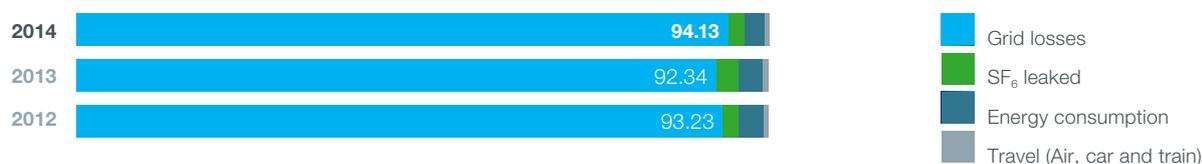
Our main environmental impact relates to carbon footprint, oil leakage and biodiversity. We do our utmost to reduce each of these impact areas in the following ways.

Carbon footprint

The carbon footprint of TenneT's operations comprises carbon emissions related to grid losses, SF₆ emissions and our own operations. The CO₂ footprint is calculated based on the CO₂ Footprint Network Operators Manual, from the Association of Energy Network Operators in the Netherlands.

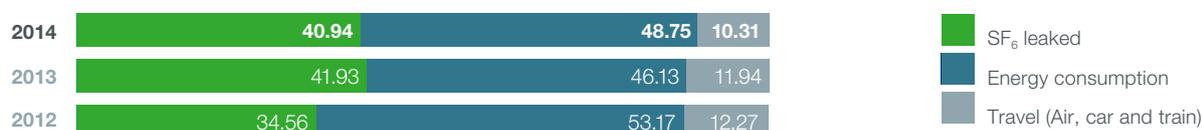
	2014	2013	2012
Total carbon footprint (tonnes CO ₂)	1,403,949	1,264,659	1,222,235

Carbon footprint with grid losses (%)



The following graph shows the distribution of our carbon footprint without grid losses.

Carbon footprint without grid losses (%)



Grid losses

Grid losses are calculated as the difference between the amount of electricity entering into TenneT’s transmission system and the amount delivered. Grid losses are an unavoidable side-effect of transporting electricity, especially over long distances. Losses also occur when the voltage changes from the higher transmission voltage of 380 V to lower voltages which ultimately carry electricity to homes and businesses. The costs of these losses are incorporated into our tariffs.

Unfortunately, increased grid loss can be a side effect of renewable energy production, due to the long distances it often has to be carried (e.g. offshore). We are seeing this in Germany, where renewable energy generated in the north needs to be transported across vast distances to reach end-users in the south.

	2014	2013	2014	2013	2014	2013
Grid losses	NL	NL	D	D	Total	Total
110/150 kV						
Grid losses (GWh)	388	380	N/A	N/A	388	380
Transported GWh	85,305	84,838	N/A	N/A	85,305	84,838
% grid losses of transported GWh	0.45%	0.45%	N/A	N/A	0.45%	0.45%
220/380 kV						
Grid losses (GWh)	559	451	1,877	1,713	2,436	2,164
Transported GWh	73,181	67,540	124,694	131,416	197,875	198,956
% grid losses of transported GWh	0.76%	0.67%	1.51%	1.30%	1.23%	1.09%
Total grid losses (GWh)	947	831	1,877	1,713	2,824	2,544

There are limited opportunities to reduce grid losses. Therefore TenneT has purchased guarantees of origin (“green certificates”) to compensate for all grid losses in the Dutch grid during 2014. In Germany legal restrictions

prevent us from doing the same. During 2015, TenneT will be looking for alternative ways to compensate the environmental impact of its German grid losses.

SF₆

Sulphur Hexafluoride (SF₆) is used in high voltage equipment on substations, because it is an excellent electrical insulator and in particular necessary for interrupting currents in circuit breakers. SF₆ is, however, a strong contributor to greenhouse gas emissions. In 2014, TenneT developed an SF₆ policy, striving to minimise usage and emission of SF₆.

The SF₆ leakage rate measurements in the Netherlands and Germany will be aligned starting from January 2015.

In addition, we have set ourselves the ambition to reduce our relative SF₆ emissions by 20% in 2020 compared to 2015. On top of that an absolute target has been set that SF₆ leakage until 2020 will not exceed the 2015 level, knowing that our asset base will increase. To achieve this, we opt to build open air-insulated substations where possible, as this design requires significantly less SF₆ than gas (SF₆) insulated substations.

As from January 2015, TenneT will compensate for the carbon footprint related to its SF₆ leakage.

	2014	2013	2014	2013	2014	2013
SF₆ and environmental incidents	NL	NL	D	D	Total	Total
SF ₆ leaked (kg)	815	1,043	595	616	1,410	1,659
SF ₆ in use (kg)	140,252	138,612	111,188	112,366	251,440	250,978
SF₆ leaked (%)	0.58%	0.75%	0.54%	0.55%	0.56%	0.66%
Environmental incidents (#)	31	22	18	14	49	36

The SF₆ emission figures for the Netherlands in 2013 are restated, because the SF₆ leakage measured by the external service providers was not sufficiently taken into account. Our SF₆ emissions are reported annually to the Netherlands Association of Energy Network Operators and to a commission of the German industry association.

We monitor all equipment containing SF₆ very closely, react rapidly to alarms, perform regular inspections and register emissions. Should SF₆ emissions exceed acceptable limits, we analyse the cause and prioritise corrective measures within our maintenance or replacement programmes, depending on the severity.

We stay close to technical innovations that can reduce the use of SF₆ in new equipment and grid expansion projects. One of the developments is a vacuum technology based circuit breaker for the 110/150 kV sub-transmission grid. Another development is research is taking place to find an alternative insulating gas for enclosed substation designs.

Our own operations

To further reduce our own carbon footprint we have provided charging stations for electric cars in our employee car park. At our Information Systems department in Bamberg, we leased some 100% electric cars to travel to stations for maintenance and incidents.

Our Dutch head office building in Arnhem, which was completed at the end of 2013, is one of the most sustainable buildings in the Netherlands. We also incorporated the latest communications technology to enable employees to work more flexibly from any location, thereby reducing the need to travel. For our former head office, a long-term lease contract was signed with DNV GL, including an agreement to renovate the building to meet the latest sustainability standards. Early 2015 TenneT sold the former head office to a third party property investor.

Oil leakage

TenneT uses oil to insulate and cool transformers at its high-voltage installations and to insulate certain types of existing, older design cables. New high-voltage cables are insulated with plastic (cross-linked polyethylene). Oil leakage can contaminate the soil and groundwater. To limit this, TenneT has a strict policy to swiftly repair leaking oil cables and cleaning of related contamination. We are looking into the option of implementing a tracer injection system that can detect smaller leaks faster. We are also investigating preventative measures for early detection of oil pressure cables leaking in large water crossings, which would be difficult to clean.

Environment

In 2014, 8,283 litres of oil leaked compared to 4,043 litres in 2013. The majority of the leakages are caused by leakage from cables in the Netherlands due to lifetime of the cables and incidents during construction work. In 2014 there was an incident during construction work in the city of Rotterdam, which caused a significant oil spill. The increase is also reflected in an increase of environmental incidents from 36 in 2013 to 49 in 2014.

Biodiversity

We work closely with our stakeholders to balance environmental concerns with a secure and stable energy supply. We take these concerns seriously and take steps to address them the best we can.

For example, in the coming years, TenneT expects to realise another 10 km of underground 380 kV cables in the Randstad 380kV North Ring, further reducing the impact on local ecology and landscape. In addition, the overhead lines will be realised with the Wintrack pylon. This relatively new type of pylon has a sleek design and also has one of the smallest electromagnetic fields of available tower designs. These pylons are designed to support both the new 380 kV line and the existing 110/150 kV lines, where required by Governmental spatial planning regulations. The benefits to landscape and ecology are clear: instead of two overhead lines crossing the landscape and forming a danger to birds and diminishing habitats for flora and fauna, only one line will remain. Sections of 110/150 kV lines that cannot be combined in the new 380 kV line will be put underground. Bird flight diverters will be placed in bird habitat areas.

For the Doetinchem-Wesel 380 kV cross-border project, a range of ecological measures are being taken before the actual start of construction, such as placing bird nest boxes and creating new foraging areas. This will allow animal habitats, including that of the little owl, to remain intact during the construction phase.

For the connection of offshore wind farms in the Dutch part of the North Sea, TenneT has signed a partnership with the NGO 'Natuur and Milieu', jointly working to minimise the impact of future offshore wind farm connections on the environment. In Germany we work together with the NGO NABU to look for the best possible way to make new stations and lines fit into the environment.

To explore how we can increase social acceptance of overhead power lines by municipalities and inhabitants TenneT, in close cooperation with the Ministry of Environmental Affairs, started a pilot in the Netherlands named the Ecologic Energy Network (EEN). This investigates how the ecological, recreational and municipal qualities of the land underneath power lines can be improved. Together with Pilot EEN, TenneT has answered the 'Call for Partnership' by the Life+ ELIA project, which will lead to new pilots and the exchange of information on biodiversity and 'creating green corridors under overhead lines'.



Creating one of
the best places
to work in
the European
energy sector



2,813
Employees



LTIF 2.5

Employees

TenneT wants to be an employer of choice, creating one of the best places to work in the European energy sector. Committed and dedicated people are key to our continued success and growth. To fulfil our mission and commitment to society, we empower our people to perform, connecting their personal ambitions to our strategic goals. In return, we create a safe, healthy, stimulating and energising place to work.

We call this vision 'Empowered by You'. It focuses on four areas: talented employees, inspiring leaders, a stimulating work environment and teamwork for excellence. In the rapidly-changing energy environment, TenneT needs to be responsive, anticipate developments and make faster decisions. In 2014, we introduced several initiatives to develop a performance-orientated culture, so that we can connect better to our stakeholders, live up to expectations and pursue our ambitions. We also stepped up our drive to embed safety awareness and developed a programme to improve project management – a vital part of our operations given the many large on- and offshore projects in Germany and the Netherlands.

Safety

Ensuring the safety of everyone involved in our activities – our own employees and contractors – is a top priority and core value of the company. This is reflected in our ambitious Safety Vision 2018, introduced in 2014. Safety is not only of paramount importance for employees working in the field, but also our office staff. TenneT continuously strives for zero harm and zero incidents. Our goal is to reduce lost time injury frequency (LTIF) to below 1.0 by 2018. In setting its safety objectives, TenneT used the oil and petrochemical industry as a benchmark.

In 2014, we raised safety awareness through internal campaigns such as 'Slips, Trips and Falls' and held workshops for employees in the Netherlands and Germany. During the year, 84% of employees attended the workshops in the Netherlands and 34% in Germany. We also introduced a standard way of analysing lost workday cases and high-risk incidents and identifying improvements to prevent re-occurrence.

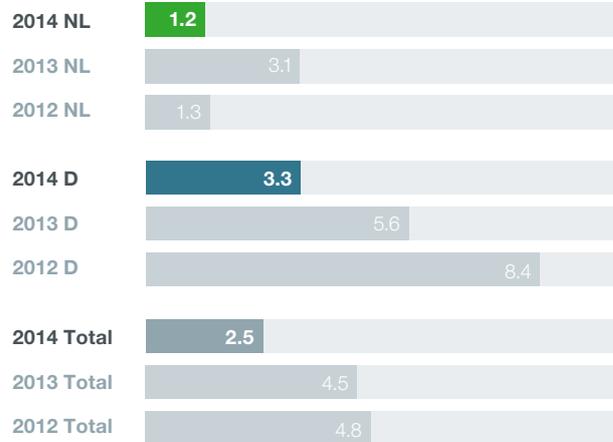
Employees

The Executive Board is active in implementing its safety vision by learning from other companies with high safety standards and by making safety walks on construction sites.

Our procurement department is working with our suppliers to raise safety awareness among contractors. One of the initiatives taken this year was arranging two safety awareness days in November and December for our key suppliers, attended by our Executive Board.

We made good progress in 2014 and saw an important decrease in the number of lost time injuries in both the Netherlands and Germany compared to 2013; still having 36 lost time injuries and 76 high risk incidents in 2014 is unsatisfactory to us.

Lost Time Injury Frequency



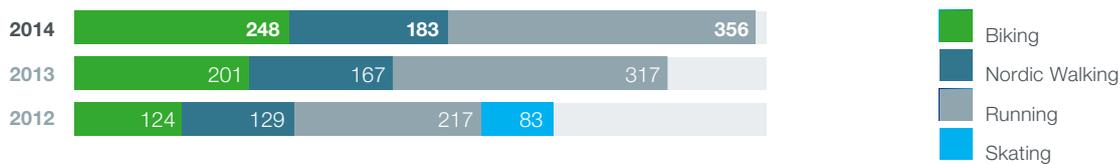
Health

We help our people to live healthy and active lives, and find a stimulating work-life balance. We offer coaching to our employees in the Netherlands and encourage all employees to join our Committed Power sports programme. The programme is open to employees and their partners and provides training and medical supervision to undertake a challenging activity, such as biking, nordic walking, running or skating. In 2014, 787 people participated, compared to 685 in 2013 and 553 in 2012.

As follow up of the preventative medical health checks in the Netherlands, sessions were organised with a coach to help our employees to improve their health.

As a result of TenneT's health policy, absentee rates at TenneT are low compared to other companies.

Committed Power - Number of participants



Absentee rate (%)



A stimulating and energising place to work

Power to Perform

One of our important initiatives in 2014 was to improve the way we manage the performance of our business, our departments, teams and individuals – all to ensure we excel in the things that really matter. To this end we launched the Power to Perform programme, which assists in translating our overall strategic intent into personal goals for everyone across the organisation. Performance is managed through monitoring, feedback and development. The programme was piloted in two departments in the Netherlands and in one department in Germany in 2014, and will be rolled out to the rest of the organisation in 2015. We will use workshops, training and coaching to instil the behaviours and attitude consistent with a true performance-orientated culture.

Developing leadership and talent

In 2014, we took stock of the wealth of skills and competencies already in our organisation, evaluating what

is necessary to fulfil our long-term ambitions. In Germany, we hired 214 new employees to support our ongoing growth as the country pursues its renewable energy targets. We are also setting up a new offshore department in the Netherlands following our appointment in principle as developer and operator of the Dutch offshore grid.

With the addition of our new hires in Germany, we now have 2,813 employees, of which 1,476 are in Germany and 1,337 in the Netherlands. TenneT works with a flexible shell model that relies on a core team of permanent employees, supplemented by temporary employees (external and internal) and external contractors for certain additional duties and peak-load work.

TenneT provides equal opportunities to all employees, offering everybody the same development opportunities. For new positions the best qualified candidates are selected for the job.

	2014	2013	2014	2013	2014	2013
Employees	NL	NL	D	D	Total	Total
Employee satisfaction	N/A	79%	N/A	85%	N/A	82%
Number of internal employees	1,337	1,318	1,476	1,275	2,813	2,593
Number of external employees	392	505	39	18	431	523
Collective labour contracts (%)	89%	89%	79%	78%	84%	84%
Function contracts (%)	11%	11%	13%	13%	12%	12%
Other contracts (%)	0%	0%	8%	8%	4%	4%
% of male employees	77%	77%	78%	78%	78%	78%
% of female employees	23%	23%	22%	22%	22%	22%

Most internal employees have a contract within the collective labour agreement and are therefore included in collective bargaining. TenneT negotiates company specific regulations with the work councils or the unions. TenneT's employees have the freedom to associate and the possibility to get tax compensation for their yearly contribution.

Our leaders drive performance and in 2014 we invested to align their behaviours with our strategy through a management development programme. We also extended our leadership training in the Netherlands to include team managers – our first-tier leaders – for the first time. In total 175 managers attended. In Germany we ran training programmes for senior, middle and team managers on topics such as labour law and conducting appraisals.

Around 64 people attended. We also ran a pilot using 360-degree feedback in the annual management review for senior management and decided to extend this method to other management levels as it provides valuable feedback and learning.

As project management is so crucial to our operations, we rolled out a programme to develop this critical function. Around a third of our employees are involved in projects in the Netherlands and Germany, of which 150 are project managers. The programme encompasses more than improving their skills, but also aims to optimise our project management processes and standardise the way we work.

Employees

TenneT also invests in nurturing new talents. Technical and non-technical university graduates join our Young Professionals Programme, which over a two-year period, gives them the opportunity to learn about the different working areas and various TenneT locations.

All TenneT employees are included in the yearly Performance Management cycle. This process aims to improve the employees' performance by setting clear objectives and identifying training needs. Ongoing employee development is crucial to achieve the organisation's ambitions and targets.

	2014	2013	2014	2013	2014	2013
EUR	NL	NL	D	D	Total	Total
Education costs	1,658	1,650	2,151	1,875	1,928	1,761

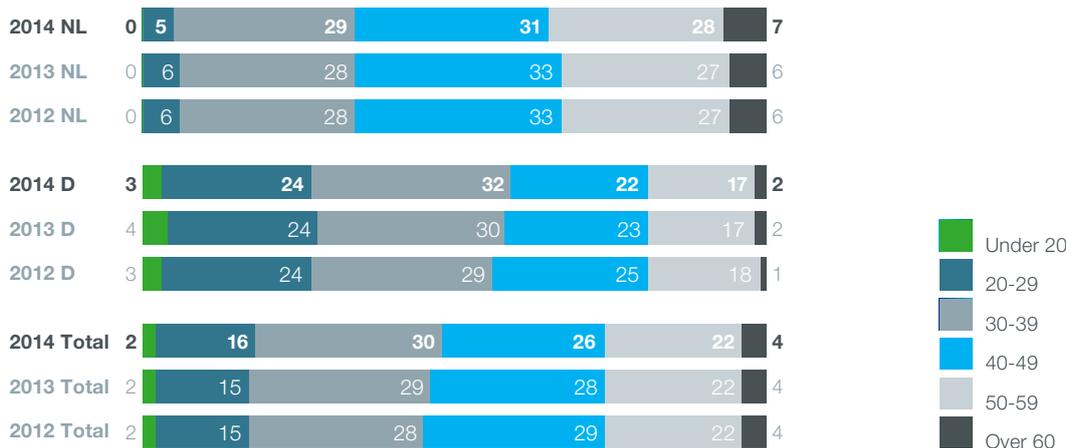
To attract the best talent and fill our talent pipeline, we offer students in the Netherlands and Germany work experience, apprenticeships and trainee programmes. With our apprenticeships, we offered 41 students in the Netherlands and 118 students in Germany the opportunity to learn about our company and develop themselves.

In the Netherlands, we offer the Power Minor programme, which enables students to advance their knowledge on energy production, transport and distribution. We liaise closely with a number of universities, including the leading technological universities of Delft and Eindhoven.

In Germany, we work closely together with the universities of Nürnberg-Erlangen, Bayreuth and Hannover. Our recruitment efforts have been rewarded by a certification from kununu, a German-wide employer-rating portal for employees and job seekers.

In the Netherlands, "Young TenneT" organises activities for a growing group of 331 members and 143 alumni. These are aimed at furthering their development, sharing knowledge and networking internally and externally.

Age spread of workforce (% by age group)



	2014	2013	2014	2013	2014	2013
Composition of in- and outflow	NL	NL	D	D	Total	Total
Inflow of employees	7%	9%	14%	17%	11%	13%
Outflow of employees	4%	3%	3%	3%	3%	3%

Employees

In order to minimise shortfalls of personnel capacity on large infrastructure projects, we carefully monitor and try to retain talent in the company. We aim to find a challenging position

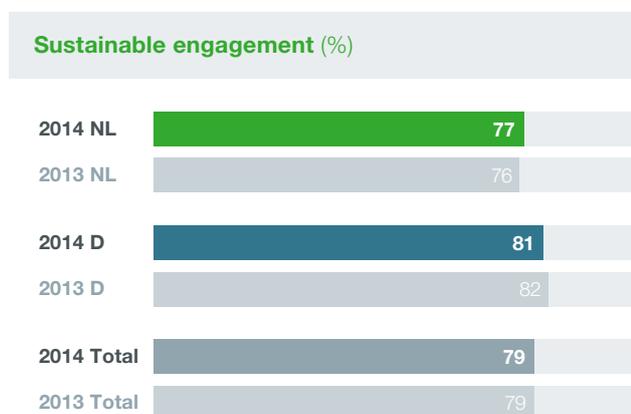
for these employees elsewhere in the organisation and ensure we have sufficient talent rising up in the organisation to fulfil potential vacancies in critical positions.

	2014	2013	2014	2013
Composition of full- and part-time employees	NL	NL	D	D
Male part-time employees	7%	8%	1%	1%
Female part-time employees	62%	63%	16%	15%

Employee engagement

We attach great value to ensuring our employees are committed and engaged. To help achieve this, we conduct an employee survey every two years to measure levels of engagement and satisfaction. The last one was in 2013. In 2014, we carried out a smaller 'pulse' survey that focused on sustainable engagement and specific topics, such as safety.

Our sustainable engagement score of 79% is above the energy and utilities sector norm of the Towers Watson benchmark.



Open dialogue with our employees

We value an open dialogue with our employees and encourage them to report potential issues regarding integrity and undesirable behaviour.

In the Netherlands, TenneT uses the whistle-blower procedure which enables employees to report alleged wrong-doings to two appointed counsellors. In 2014, 51 cases were reported, of which 40 have been closed and 11 are still in progress. In two cases a formal complaint was filed under the whistle blower rules.

In Germany, TenneT uses a similar procedure as in the Netherlands. Everybody has the possibility to report – anonymously if desired – potential issues regarding integrity or undesirable behaviour. In 2014, there was one case reported and closed after investigation.

For 2015 it is planned to introduce a uniform whistle blower procedure corporate wide.

The second half of 2014 a qualitative survey among 120 respondents was held with respect to the openness of the company culture in the Netherlands. The main conclusion was that employees feel comfortable expressing their opinion towards colleagues and managers on work related content and procedures, but feel less comfortable addressing working relationship related issues. This outcome has led to the start-up of activities to initiate on internal dialogue on openness and social safety.

Living the dialogue

We rely on dialogue to understand what is important to our stakeholders.



A good example is how we involved the community, NGOs and politicians in our SuedLink project. SuedLink is Germany's longest grid expansion and will affect communities in over a third of the country.

In order to build understanding and support, TenneT hired seven community relations officers in the regions affected by the many projects, dedicated to the needs of local citizens, businesses and politicians.

It is important for us to have this personal contact, listening to stakeholders' concerns, keeping them informed and sharing thoughts and questions. This dialogue enables us to take on board stakeholder concerns and viewpoints in our planning at an early stage, so project execution can start as promptly as possible. In 2014, we organised hundreds of information sessions in Germany alone – often in evenings and weekends.

Catherin Krukenmeyer, TenneT Community Relations Officer for the cluster North West Lower Saxony

“As a community consultant, I strive to enable a direct exchange of opinions with the local residents, in order to establish a basis for an open and frank discussion.”

Karlheinz Budnik, Mayor of the municipality of Windischeschenbach (during a citizen information meeting with TenneT)

“Involving citizens is a good thing in my opinion, in particular the intention to gain their trust. I am convinced the routeplanning process will therefore be successful.”



Innovation is necessary to address the changes TenneT is facing



Crowdsourcing applied to generate new ideas

Innovation

Innovation in systems, services and technology is necessary to address the changes TenneT is facing. Innovation for us 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 ensure security of supply and to pursue the development of an integrated and sustainable North West European electricity market.

Innovation at TenneT

TenneT adopts a bottom-up approach to manage innovation, with ideas generated by employees and external stakeholders, for example by means of crowdsourcing. Crowdsourcing is the process of connecting large groups of people who are relevant because of their knowledge, expertise, engagement or profession. In 2014 we applied crowdsourcing to generate and accelerate new ideas about sustainability in our infrastructure projects. Colleagues were asked to post their ideas and then develop them further, together with experts. The best three ideas will be implemented in 2015.

TenneT also drives the innovation process top-down through our external Innovation Advisory Board. This evaluates TenneT's Research & Development policy and innovation programmes with an external perspective and in an international context. This board 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 Jorgensen (Energinet.dk, Denmark).

In 2014 TenneT's innovation programmes focused on initiating and implementing several large-scale European innovation projects in cooperation with other TSOs participating in the European Association of electricity Transmission System Operators (ENTSO-E). Examples of those innovation projects can be found below.

Innovative methods to plan and operate the power system

In cooperation with other TSOs, TenneT performs research on new ways of planning and operating the electricity system.

Project Umbrella – develop innovative tools

Electricity networks with high penetration of variable renewable energy sources require new tools for TSOs to ensure secure grid operation in the near future. Led by TenneT, innovative tools and methods for the future coordinated and stable operation of the European electricity system are researched and developed in the European project UMBRELLA. The results will enable TSOs to act in a coordinated European electricity system where regional strategies converge to ensure the best possible use of the European infrastructure and to plan the network with a link to more flexibility in the transmission system. The scientific work by the Universities and Institutes is currently in the final stage and will be followed by the implementation of prototype-tools.

Security Assessment and Stability Optimisation

The ever-increasing complexity in the real-time operation of the transmission grid and of safeguarding the security of supply requires a new generation of professional tools for use by control room dispatchers. Within the TenneT Security Assessment and Stability Optimisation project the functionalities of the existing SCADA systems in Germany and in the Netherlands shall be extended and enhanced accordingly. This innovative approach will result in a new kind of TSO supporting tool (“system operation cockpit”) that will further strengthen security of supply.

Future advanced system monitoring and control

The introduction of renewable energy sources into the European electricity market has fundamentally changed the environment TenneT operates in. It requires a different way of monitoring and controlling the electricity grid.

Wide Area Monitoring

Wide Area Monitoring is an over-arching term for Wide Area Control and Wide Area Protection. A Phasor Measurement Unit (PMU) is a device which measures the electrical waves on an electricity grid, using a global positioning system (GPS) radio clock for synchronisation. Time synchronisation allows co-ordinated real-time measurements of multiple remote measurement points on the grid. This innovative approach involves the application of PMUs to collect phasor measurements from substations widely spread around the international transmission network. This information can then be compared using a single data station, providing a complete overview of network stability in the future. TenneT is building up practical experience with the application of PMUs. The aim is to use the phasor data

processing system to fill the gap between local fast-acting protection devices and slower control centre applications that cover a wide area. Wide Area Monitoring also will give the operator in the control centre visibility of upcoming critical situations.

Research on reliability assessment and modelling

As TSOs face increasing uncertainties (changing energy mix, large amounts of variable generation, competition from other market participants, etc.) occurring at international, national and local levels, new criteria for ensuring the reliability and operability of the European power system need to be defined, developed, applied and monitored. This is necessary to ensure the adequacy and security of electricity supply. To help achieve this, TenneT contributes to the European scientific research project GARPUR – a cooperation between 10 universities, eight TSOs and two technological institutions. This is helping TSOs develop better methods and tools for risk management, that can be applied in a range of situations, including: long-term planning and design of the power system; operational planning and maintenance scheduling; real time operations and market facilitation. The project also aims to ensure that the new reliability criteria can be progressively implemented by TSOs.

Plan and build high-performing electrical power grids

To address public concerns concerning impact on the environment, we are incorporating new technologies to meet increasing societal expectations.

380 kV underground cable research programme

The Randstad application of 380 kV high-transmission underground cables, operating in a heavily loaded meshed network, is unique in the world. The research programme on this underground cable system is threefold. Firstly, several PhD and MSc students from Delft and Eindhoven Universities of Technology are looking into the steady state, transient and resonance behaviour of the underground cable under certain conditions, as well as the reliability and availability of underground cables, compared to overhead line connections. To do this, they are developing models to predict the behaviour of the underground cable. Research on resonance behaviour and model simulations shows that resonance frequencies of a grid with underground cables decrease. This is important, as resonance frequencies close to 50 Hz and related harmonic frequencies (such as 150 Hz, 250 Hz) should be avoided.

Secondly, the research is collecting data from a unique condition-monitoring system, installed in the Randstad South Ring. This is following the underground cable performance. The data from this system will be used to validate scientific models on steady state and transient behaviour and also 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. Overall, this research should clarify whether the application of 380 kV underground cables in a heavily loaded meshed electricity grid can be extended further and, if so, under which conditions.

Onshore HVDC project SuedLink

The forecasted large increase of electricity generation from renewable energy sources in Northern Germany, together with the phasing out of nuclear power plants, is expected to lead to a situation where the transmission 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 incurs increased energy loss from the grid. To reduce these grid losses, two high-voltage direct current (HVDC) power lines of up to 500 kV, between the northern and southern parts of Germany's electricity grid, are envisaged. These will use an innovative voltage source control HVDC technology, in combination with uniquely high transmission powers of 2 GW. In many technological details, this project is a world-first and is planned to be in operation in 2022.

Integration of future renewable energy sources

Efficient integration of renewable energy sources on a large scale requires new solutions for expanding and operating the electricity system.

Developing the near-shore grid in The Netherlands

The Dutch government has set ambitious goals in the National Energy Agreement to connect 3,450 MW of offshore wind energy to the grid by 2023.

In 2014, TenneT presented a new concept for connecting offshore wind. This concept provides direct connection of offshore wind turbines to five newly designed standard TenneT 700 MW platforms. The offshore platforms will be connected to the onshore grid via 220 kV AC cable connections. TenneT will facilitate the electrical equipment of the offshore wind farm on its platforms, thus reducing the total number of platforms. The platform may also be used to connect offshore wind further offshore through a 'hubbing' technique that connects to the next offshore platform. This requires a new platform design which will be used as standard for the currently foreseen five offshore TenneT platforms in the Dutch North Sea. Standardisation is key to reduce the overall costs.

Scientific research on integration of future renewable energy sources

In cooperation with University of Groningen, TenneT is involved in research into redesigning the electricity market in order to facilitate the transition towards a sustainable energy system. The objective of this research is to provide more insight into the technical, economic and social impacts of the growth in renewable energy sources. As part of this exploration into electricity market design, all institutional aspects will be explored, including the regulation of networks, the way wholesale and retail markets are organised, the instruments used to foster renewable energy, and the integration of the energy system (gas, electricity and heat). The results of the research will be valuable for the current debate on a European level. The research will be validated by a panel comprising members of all major stakeholders in the electricity market (producers, consumers, network operators, government agencies), who will be able to fully utilise the results from the research. These players have also contributed to formulating the research topics, which guarantees that it will be focused on the most relevant issues.



2,296

Investments
(EUR million)



2,305

Revenue (EUR million)

725

EBIT
(EUR million)

Financial results

Financial performance is measured using 'underlying' financial information, which differs from the IFRS reported figures, as presented in the consolidated financial statements. 'Underlying' financial information involves the recognition of regulatory receivables and payables which – based on the current enacted regulatory framework – can be recouped or are required to be returned through future grid tariffs. TenneT believes that 'underlying' financial information better represents its actual business and financial performance, and is therefore used for management reporting and analysis, as well as for internal decision-making and financial planning.

In EUR million based on underlying financial information	2014	2013	Change	Change in %
Investments in tangible fixed assets	2,296	1,868	428	22.9%
Revenue	2,305	2,243	62	2.8%
EBIT	725	620	105	16.9%
Net interest bearing debt, adjusted	4,167	3,147	1,020	32.4%
FFO / Net debt	18.0%	18.6%	-0.6%	-3.2%

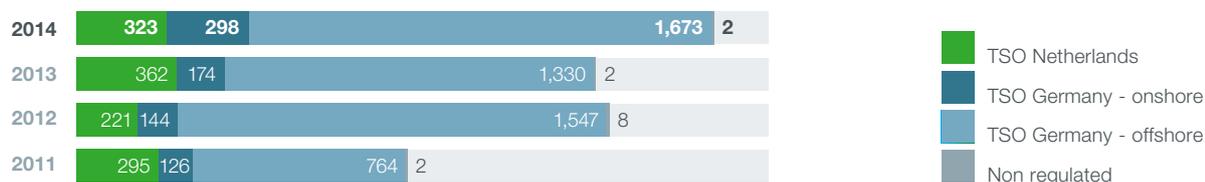
High level of investments supports grid reliability and market integration

In 2014 TenneT continued to make significant investments in the grid in order (i) to connect renewable and conventional generation, (ii) to ensure grid availability and security of

supply and (iii) further interconnect the North West European electricity market. Total investments in tangible fixed assets amounted to EUR 2,296 million (2013: EUR 1,868 million) of which EUR 323 million relates to the Netherlands and EUR 1,971 million to Germany.

Financial results

Investments (EUR million)



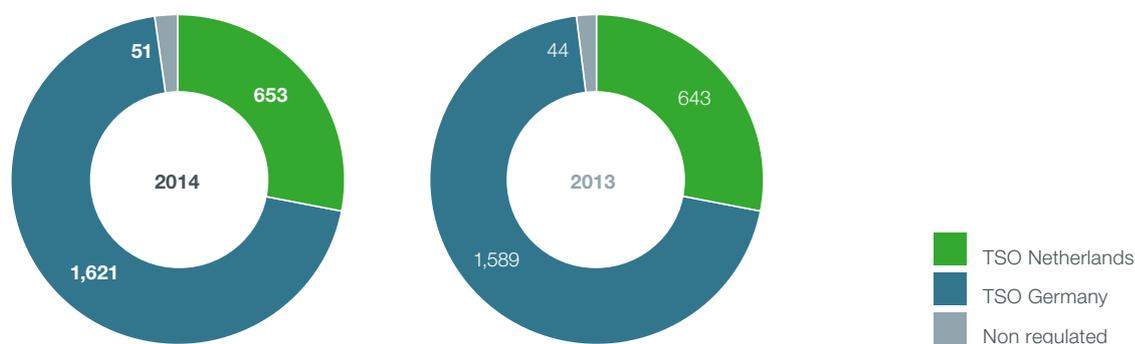
Investments in the Netherlands are mostly concentrated around a few large-scale projects – Randstad 380 kV, North West 380 kV, South West 380 kV and Doetinchem-Wesel – of which Randstad 380 kV is currently the largest project under construction (EUR 158 million cumulative investment up to 2014). In November 2014 the cabling for project Noordoostpolder, between Ens and Westermeerdijk, was successfully completed (total investment volume of EUR 85 million).

The projects BorWin2, HelWin1 and SylWin1 have started their trial operation as their final phase of construction and commissioning. BorWin2 and HelWin1 were completed in January 2015 and completion of SylWin1 is expected in first half year of 2015. Investments in the German onshore grid amounted to EUR 298 million of which Westküstenleitung (the connection between Brunsbüttel and Denmark), the connection between Hamburg-Nord and Dollern and the connection between Wahle and Mecklar were the projects with the largest investments in 2014.

Operating results

An important component of our financial results is the allowed return on the capital invested in our regulated asset base. TenneT's growing asset base and investments in recent years have been the main driver for an increase in revenues and EBIT; especially in Germany where the regulatory framework provides for a return on capital invested in large projects during the construction phase with no time lag (so-called 'investitionsmaßnahme' or IMA). In the Netherlands, the effects of the new (lower) revenue cap (applicable for the years 2014-2016) offset the effect of the increased Dutch asset base and also there is generally a lower regulatory reimbursement during the construction phase of projects. Combined with higher depreciation and operating expenses, EBIT in the Netherlands decreased in 2014 compared to 2013, despite the growing level of investments in the last two years.

Revenue (EUR million)



Financial results

EBIT (EUR million)



Revenue

Consolidated 'underlying' revenue increased by 2.8% to EUR 2,305 million in 2014. In the Netherlands, revenue was slightly higher than in the prior year (EUR 10 million), mainly resulting from additional revenue in connection with last year's completed investment in the southern part of the Randstad 380 kV project.

Contrary to the Netherlands, the annual revenue cap in Germany positively affected revenue (EUR 33 million). Furthermore, TenneT's offshore investments and activities resulted in a EUR 30 million increase in 2014 revenues compared to 2013. The size of this increase is significantly reduced due to an incidental gain in 2013, relating to the retrospective reimbursement of offshore expenses from the years before 2013. The increase in revenue from TenneT's offshore activities primarily relates to the increasing (offshore) asset base. The positive effects on revenue were somewhat offset by regulatory pass-through items for costs incurred and to be settled in future tariffs, mainly relating to system services and maintenance of the energy balance. These pass-through items have an identical effect on costs, therefore the net effect of pass-through items on EBIT is zero. In aggregate, revenue of TSO Germany increased by EUR 32 million compared to 2013.

EBIT

Consolidated 'underlying' EBIT increased by EUR 105 million, mainly relating to TSO Germany and to a smaller extent TenneT's 50% participation in the BritNed cable.

'Underlying' EBIT in the Netherlands decreased by EUR 25 million, as the revenue increase was offset by higher depreciation charges and increased rental and maintenance expenses. Furthermore, 'underlying' EBIT decreased due to the reduction of allowed returns for the years 2014-2016 based on the regulatory scheme for these years. The reduction in return is progressive during this three-year period, and as such will have a higher impact in the next two years. This increases the importance of operational excellence initiatives that are aimed at reducing operational costs by working smarter and more efficiently.

In Germany, the higher investments and offshore activities were the main factors contributing to the increase in 'underlying' EBIT. This effect is somewhat counteracted by higher depreciation charges, resulting from the higher asset base, and higher personnel expenses resulting from workforce expansions to support the growth in activities. Furthermore, the upward effects on 'underlying' EBIT were counterbalanced by additions to environmental provisions and provisions for legal claims and risks associated with TenneT's offshore activities in Germany. The main liability risks in connection with TenneT's German offshore activities relate to delays and interruptions of grid connections to offshore wind farms.

A significant number of offshore projects now enter the operational phase, it is uncertain how actual operating and maintenance costs on these connections will develop in future years. There is a risk that the fixed percentage reimbursement of operating expenses will not cover all expenses after commissioning.

'Underlying' EBIT from non-regulated companies increased in 2014 compared to 2013. TenneT's participation in the BritNed cable contributed EUR 32 million (TenneT's 50% share in profit) to this year's 'underlying' EBIT, which reflects a EUR 18 million increase compared to 2013. The drivers for the increase were the price difference between the United Kingdom and the Netherlands and revenues from new frequency response services. Compared to 2013 the increase in 'underlying' EBIT from non-regulated companies is significantly impacted by the EUR 25 million incidental gain from the sale of the APX gas activities in 2013.

Cash flows

Operating cash flows are heavily influenced by movements in the working capital related to clearing activities performed by TSOs in accordance with the German Renewable Energy Act (EEG). For TenneT, EEG activities constitute solely a pass-through item comprising fluctuations in receivables and payables without any effect on the statement of income. For further details on the EEG system reference is made to the 'Markets' section of this Integrated Annual Report.

Financial results

For the evaluation of our operating cash flows, we have separated EEG working capital movements in the below table:

(EUR million)	2014	2013	Change
Operating cash flows (excluding EEG working capital)	869	1,405	-536
Investing cash flows	-2,109	-1,759	-350
Financing cash flows	242	-430	672
	-998	-784	-214
EEG working capital movements	869	869	-
Net change in cash and cash equivalents	-129	85	-214

Despite the increased results, the net cash flows from operating activities decreased in 2014 compared to 2013 due to repayments of not owed system services in the Netherlands and due to an increase of the working capital. The increase in working capital is mainly related to the expansion of offshore activities resulting in higher grid fees and receivables still to be invoiced in connection with German offshore costs to be recharged, mainly to other TSOs.

The majority of the net cash outflow from investing activities relates to the investments in infrastructure made throughout 2014, following TenneT's substantial investment programme due to which the cash outflow from investing activities increased in 2014 compared to 2013. In 2014 financing cash flow mainly involved equity transactions with holders of non-controlling interests in the offshore assets offset by cash distributions made to such holders. For further details on the financing cash flows reference is made to the section below.

Capital Structure

The size and volatility of TenneT's investment programme requires flexible access to equity sources to maintain an appropriate capital structure and ensure the company remains attractive to investors. This translates into a credit rating target 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 2014, TenneT Holding B.V. had the following senior unsecured credit ratings from Standard & Poor's and Moody's, which remained unchanged compared to 2013 and were confirmed by these rating agencies on 19 May 2014 and 27 May 2014, respectively.

Credit rating as of 31 December 2014 and 2013	Long-term rating	Short-term rating
Standard & Poor's	A- (stable outlook)	A-2
Moody's	A3 (stable outlook)	P-2

Equity position

In 2014 TenneT's equity balance has been further strengthened and amounts to EUR 3,236 million (2013: EUR 2,593 million). In April, TenneT and the Danish infrastructure fund management company Copenhagen Infrastructure Partners (CIP), investing on behalf of Pension Danmark, reached agreement on a joint investment in

DoWin3, a 900 MW offshore grid connection for wind farms in the German part of the North Sea. CIP purchased a 49 percentage voting interest in this sustainable energy project for a cash consideration of EUR 366 million, leading to a significant increase of TenneT's total equity. CIP's total equity commitment in the project amounts to EUR 384 million.

Financial results

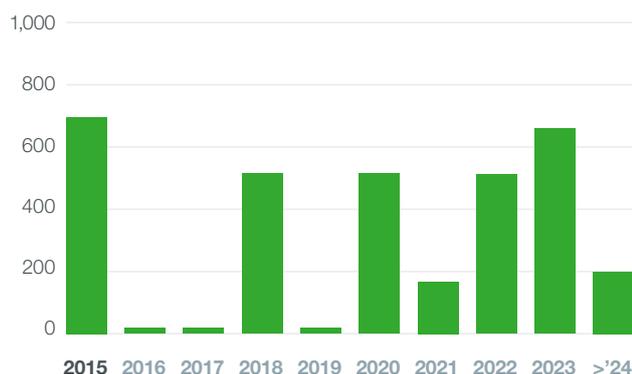
Total equity further increased with current year's total comprehensive income, which were partly offset by dividend distributions to the shareholder (EUR 98 million) and interest paid to holders of hybrid securities (EUR 25 million, net of tax).

Net interest-bearing debt position

On 31 December 2014, TenneT's adjusted net interest bearing debt position (adjusted for EEG and cash balances) increased by EUR 1,020 million to EUR 4,167 million (2013: EUR 3,147 million). Adjusted net interest bearing debt equals outstanding borrowings less EEG receivables, if any, plus EEG payables, if any, less cash balances, if any. Due to net positive EEG inflows of EUR 869 million during 2014 (2013: EUR 869 million), outstanding borrowings remained relatively stable compared to 31 December 2013 (i.e., EUR 111 million increase to EUR 3,325 million as at 31 December 2014). As of 31 December 2014, net amounts to be repaid by TenneT in respect of EEG totaled EUR 925 million (2013: EUR 56 million).

TenneT aims to avoid holding positive 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 instead. This liquidity requirement was met throughout 2014.

Annual redemption of interest-bearing debt
(EUR million)



In 2014, TenneT refinanced its EUR 1,125 million revolving credit facility (RCF) maturing 2018 and cancelled its EUR 500 million RCF maturing 2016. The principal amount of the EUR 1,125 million RCF has been increased to EUR 2,200 million, while the pricing of the facility has been reduced and its maturity date has been extended from August 2018 to July 2019, with two additional one-year extension options included. Participating banks are: ABN AMRO, Barclays, BNG, BNP Paribas, Deutsche Bank, HSBC, ING Bank, Lloyds, Rabobank, RBS and SMBC. As of 31 December 2014 no amounts were outstanding under the 2,200 million RCF.

On 17 October 2014, TenneT signed a EUR 150 million long-term committed loan agreement with the European Investment Bank (EIB). As of 31 December 2014, EUR 800 million of undrawn committed EIB facilities were available.

Furthermore, in December 2014 TenneT had signed a EUR 25 million forward starting committed loan starting in January 2015 and maturing in January 2016.

In addition, TenneT had EUR 375 million of uncommitted credit lines and a EUR 2,200 million commercial paper programme available. As of 31 December 2014, the uncommitted credit lines were undrawn and the EUR 181 million of commercial paper was issued.

FFO/Net debt

TenneT's internal policy is to maintain a FFO/Net debt ratio of at least 8%, in line with the requirements of Standard & Poor's and Moody's for the A-/A3 rating category respectively. Following the increase in adjusted net debt position the FFO/Net debt ratio slightly reduced to 18.0% in 2014 compared to 18.6% in 2013.

Corporate governance

TenneT complies with the Dutch Corporate Governance Code, in accordance with the requirements of its Shareholder and TenneT's belief in the importance of transparency. This provides TenneT and its subsidiaries with clear operating guidelines.

Corporate governance structure

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

Executive Board

The Executive Board of TenneT Holding B.V. has four statutory and two non-statutory directors. The members of the Executive Board have joint authority to represent the company. Each board member also holds limited individual power of attorney. Two members of the Executive Board of TenneT Holding B.V. are managing directors of TenneT TSO B.V.; two other members of the Executive Board are managing directors of TenneT TSO GmbH.

The Executive Board is responsible for general policies and strategy of TenneT, which includes regulated and unregulated activities.

Supervisory Board

The Supervisory Board oversees the general policies and strategy of TenneT and carries out its duties in the interests of the company and its stakeholders, while also taking into account those aspects of corporate social responsibility that are relevant to TenneT. The Supervisory Board operates at the level of TenneT Holding B.V. TenneT is subject to a mitigated statutory two-tier regime ('verlicht structuur-regime') according to the Electricity Act.

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

General Meeting of Shareholders

All shares in the capital of TenneT are held by the Dutch state, which is represented by the Ministry of Finance. Under the Electricity Act, only the Dutch state may hold voting interests in the company. A General Meeting of Shareholders is held within six months of the end of each financial year. The agenda includes a discussion of the annual report, the adoption of the financial statements and a dividend proposal and the discharge of members of the Executive Board and the Supervisory Board of liability from 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 financial statements prepared by the Executive Board. The external auditors' report to the Supervisory Board and the Executive Board and present their findings in a independent auditor's report and assurance report, management letter and audit results report.

The performance of the external auditors is evaluated 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 Supervisory Board meetings in which the management letter or 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 provision in the Corporate Governance Code do not apply to TenneT 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 Dutch state 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 does not apply to TenneT. The third criterion relates to a Supervisory Board member who has temporarily been charged with managing the company in the event of the Executive Board being unavailable or incapacitated (see III.6.7).

III.5. If the Supervisory Board has more than four members, the Corporate Governance Code stipulates it 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.

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 to be 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 policy.

The company defines its risk policy through seven business values: security of supply, safety, financial performance, customers, reputation, environment and compliance. TenneT's risk appetite is represented in a risk matrix, which is used to determine and score the likelihood of identified risks and their impact on the company.

Risk management and internal control

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

- The adequate management of risks that may threaten the realisation of TenneT's strategic and operational objectives;
- Compliance with applicable laws and regulation (e.g. the Dutch Corporate Governance Code; the German Control and Transparency in Business 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 of the risks associated with the seven business values 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 TenneT's risk management and internal control framework.

In 2014, we made further progress on several improvement initiatives that were started in 2013, including the development of a company-wide Business Control Framework, the implementation of a uniform project risk management system for large projects and the use of a risk management tool for all risk management disciplines within TenneT. In the investment planning process, we extended

the use of a risk-based methodology to determine required investments in the 10-year planning horizon based on the seven business values. This methodology was initially used in the Netherlands and is now also adopted in the German investment planning process. During the year, we undertook various risk analysis workshops in specific operational areas, including in the Offshore Netherlands business unit following the intended appointment of TenneT as the developer and operator of the offshore electricity grid in the Dutch part of the North Sea.

Risk management disciplines within TenneT

Within TenneT, a distinction is made between three main types of risk management activities:

- Corporate risk management
- Risk and portfolio management
- Project risk management

Corporate risk management

Corporate risk management within TenneT is aimed at managing the risks that threaten the achievement of TenneT's strategic and operational objectives, and of being 'in control' of its operations.

TenneT's corporate risk management system is based on the international COSO II model (Committee of Sponsoring Organisations of the Treadway Commission). This 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.

Risk and portfolio management

Risk and portfolio management is part of TenneT's asset management process and is key to TenneT's risk-based process for making investment decisions. Grid constraints are identified in analyses of the grid components and failures. In the Netherlands, the results from these analyses

Risk management

are summarised in the bi-annual Quality and Capacity Plan, which is reviewed by the Dutch regulator. TenneT Germany and the other German TSOs jointly draw up annual onshore and offshore grid development plans, which require approval from the German regulator.

The constraints are assessed on the risk they pose to TenneT's business value framework. Should the risk level exceed a predefined level, a mitigating measure is proposed and included in the investment portfolio. The mitigating measures are prioritised on a yearly basis, and the results are summarised in the annual investment plan (AIP) of TenneT Netherlands and Germany.

Project risk management

Project risk management helps to ensure large-scale infrastructure projects are realised on time, according to quality specifications and within budget.

The project risk management system (PRMS) is used to systematically review and manage risks and changes in the risk position. Projects are classified and assigned to three categories of project risk management: simple, medium and complete. For each category the scope of the project risk management level is described in an organisational handbook, which applies to all operating units within TenneT.

Roles and responsibilities

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

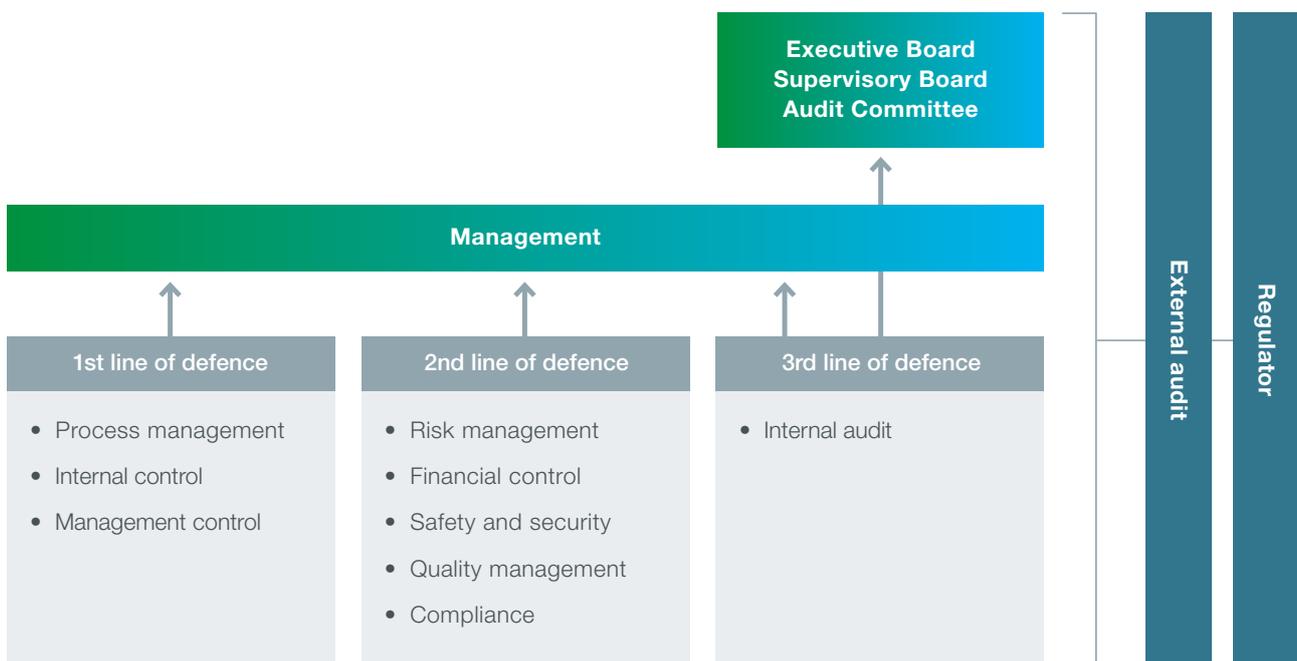
First line of defence: Business

TenneT's managers bear primary responsibility for identifying, controlling and monitoring the risks within their processes and for maintaining an appropriate business control framework. These internal controls ensure the reliability of our processes, provide assurance to the second and third line and, as a result, our financial and management reporting. Ensuring the uninterrupted working of these internal controls has our constant attention. In addition to the business control framework, there are tax and IT control frameworks to ensure compliance with internal policies as well as external legislation.

Second line of defence: Risk management (and other second line activities)

Corporate Risk Management is responsible for coordinating, further developing, and monitoring TenneT's risk management system and, together with the Control organisation, for supporting and challenging the business with risk management and internal control matters. Corporate Risk Management is also responsible for independent risk

Three lines of defence model



Risk management

reporting to the Executive Board, Supervisory Board and Audit Committee.

Third line of defence: Internal audit

Internal audits are fundamental to 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. These audits provide management with additional assurance on the effectiveness of internal controls.

The Internal Audit department schedules its audits on a three-year cycle, which is revised annually to reflect the latest operational and strategic risk assessments performed by Corporate Risk Management. Specific audits are planned during 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 every quarter.

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 risks identified by the Executive Board. Detecting potential fraud is standard in all internal audits at TenneT. Effective communication and awareness training on this subject help to protect TenneT and our employees against economic and reputational harm.

We also have a Fraud Committee, with members from relevant functions (Corporate Risk Management, Internal Audit, Corporate Safety & Security) and compliance officers. It is chaired by the CFO and COO. The objective of the Fraud Committee is to ensure awareness of potential fraud and prevent it from happening, thereby reducing this risk.

In 2014, one integrity breach was discovered at TenneT Netherlands, regarding the unauthorised use of TenneT property. An internal investigation was carried out and adequate actions were taken to prevent similar cases in the future.

TenneT has a whistle-blower procedure for internal and external integrity issues. In the Netherlands, employees can report any concerns in confidence to a trusted counsellor ('vertrouwenspersoon'). In Germany, this role is covered by the compliance officer. Our whistle-blower procedure is published on the company's website.

Key corporate risks

An overview of the main risks in 2014 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.

Strategic risks

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

A strategic risk assessment is performed annually. Each strategic risk is assigned to an Executive Board member who evaluates the development of the risk, the existence of control activities and so-called 'key risk indicators'. The results of these evaluations are shared and discussed with the Executive Board, and, based on this, 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 October 2014, the most important strategic risks – based on our assessment of their likelihood and impact – are presented in the following table. The majority of these are related to realising our investment programme and operating our grids: delays; inefficiencies in construction or operations; technological failure and problems with public acceptance can have a substantial impact on achieving our strategic objectives. The likelihood and impact of these risks has generally risen, given the many large projects under construction and with multiple offshore projects coming into use in the near future. The efficiency of our investments and operations is increasingly seen as a key risk, due to uncertainties in expenses e.g. the expected cost of operating and maintaining the offshore platforms, but also due to the risk of adverse regulatory changes. A robust regulatory environment and solid strategic alignment with our shareholder continue to be important cornerstones for safeguarding the realisation of our strategy. Compared to the previous year, following the agreed joint offshore investment with CIP and additional EIB loan for NW380, the risk of not being able to raise sufficient equity and debt capital to finance our investment programme has been successfully reduced.

Risk management

Strategic risk	Risk mitigating actions
Significant delay in execution of investment programme	
<ul style="list-style-type: none"> Delays in executing investment programme due to lengthy permits / licensing processes, insufficient project control or external factors Insufficient supplier capacity to realise investment programme 	<ul style="list-style-type: none"> Establishment of Large Projects business units in NL and D to intensify focus, project control and record-keeping Active stakeholder management to speed up the permitting and licensing procedures Start of 'Project Management Committee' programme within NL and D to further standardise designs, processes, reports and skills of employees Supplier market consultation / supplier information days to inform about future needs
Misalignment between TenneT and policy stakeholders with respect to execution of our strategy	
<ul style="list-style-type: none"> European strategic objectives of TenneT versus national political interest Political conflicts of interest regarding national energy strategy between Netherlands and Germany 	<ul style="list-style-type: none"> Invest in relationship with relevant policy stakeholders (shareholder, regulator, ministry of economic affairs) Alignment / involvement of future strategy and investments with shareholder in an early stage.
Adverse changes in NL / D regulation or changes in regulatory parameters	
<ul style="list-style-type: none"> Changes in regulation or regulatory parameters causing loss of cash flow and/ or value Misalignment between regulator / shareholder / ministry of economic affairs 	<ul style="list-style-type: none"> Maintain and invest in relationships with regulators and government. Being pro-active towards regulators and governments.
Public perception and non-acceptance of new lines	
<ul style="list-style-type: none"> Non-acceptance of new lines can cause delays in getting permits and licences and thus delays in realisation of projects 	<ul style="list-style-type: none"> Active stakeholder management Public dialogue about the impact of our activities on people and businesses (collaborative approach)
Failure or malfunctioning of new high-voltage technology	
<ul style="list-style-type: none"> Implementation of non proven (offshore DC) technology on a large scale Risk of (similar) technical issues within multiple projects at the same time 	<ul style="list-style-type: none"> Extensive fault examination. Execution of regular surveys. Establish Task Force together with offshore wind farm and HVDC supplier for fault rectification Collaboration with other HVDC suppliers as well as wind turbine manufacturer.
Inability to achieve sufficient opex efficiency	
<ul style="list-style-type: none"> Future offshore opex expenses structurally higher than the regulatory revenue allowance Insufficient internal awareness about cost efficiency 	<ul style="list-style-type: none"> Convincing regulator and government based on actual developments Opex reduction targets and programmes
Inability to achieve sufficient capex efficiency	
<ul style="list-style-type: none"> Budget overrun within large offshore and onshore projects (capex) 	<ul style="list-style-type: none"> Intensive project control to ensure that large-scale infrastructure projects are realised within budget
Merging of other TSOs leading to changes in strategic position of TenneT	
<ul style="list-style-type: none"> Changes within North West European TSO playing field 	<ul style="list-style-type: none"> Keeping a close eye on M&A activity through discussions with banks, investors, fellow TSOs, etc.

Operational risks

The operational risks affecting the various departments are identified and analysed each quarter by Corporate Risk Management in conjunction with the business controllers and the responsible senior managers. The TenneT risk matrix is used to determine the likelihood and impact of the identified risks and to establish whether they are within TenneT's risk appetite. The respective departments produce quarterly reports detailing the status of operational risks and their progress 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 following table the most important operational risks of TenneT Holding are presented.

Operational risk	Risk mitigating actions
Grid failures / interruptions	
<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 to anticipate better on the changed grid situation Increased volume contracts of control and reserve power and redispatch capacity Revision of operating instructions and manuals
Not realising planned onshore and offshore investment and maintenance 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 and not meeting the scheduled deadline for planned connections. 	<ul style="list-style-type: none"> Increased speed of replacement of crucial components Improvement of project reporting cycle / project control and evaluation of projects (Plan-Do-Check-Act) More intense recruitment activities to assure that crucial positions are filled

Financial and reporting risks

A strong capital structure, access to capital and reliable financial reporting are essential to TenneT. Failure to achieve our financial objectives will have a negative effect on the company and our stakeholders. TenneT defines financial risks as uncertainties that may affect its 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 following table 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"> 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"> Use of margining framework, holding of collaterals from members, default fund contributions by members (APX) External parties with programme responsibility required to provide security in the form of bank guarantees or collaterals
Interest rate 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 	<ul style="list-style-type: none"> Significant part of debt portfolio is based on low cost fixed interest rates
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 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 and/or 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. Non-compliance 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 following table presents examples of compliance risks and mitigating actions, grouped in three areas.

Compliance risk	Risk mitigating actions
<u>General / legal compliance</u>	
<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 TSOs, 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
<u>Financial compliance:</u>	
<ul style="list-style-type: none"> • Non-compliance with IFRS, local GAAP, the Dutch Corporate Governance Code, the German Control and Transparency in Business 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
<u>Technical compliance:</u>	
<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 (authorised persons) and technical strategists

Regulatory risks

A substantial part of TenneT's revenues comes 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 Consumers & Markets (ACM) 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 are summarised below.

Regulatory risks in the Netherlands

In 2012, the Trade and Industry Appeals Tribunal ('CBB') ruled that users not directly connected to the public grid are not required to pay system services fees. As a result, TenneT is obliged to refund these users the fees they unduly paid. An increase in the permitted tariff income from 2014 and onwards will compensate for the repayments. The adoption of article 91 of the Electricity Act as of 1 January 2014, provides further clarification of the exact group of affected users. TenneT has established a framework to assess their claims for restitution. This framework has the support of the ACM. In 2014, the ACM audited the repayments that were included in TenneT's tariffs for the year 2014. The findings of the audit confirmed the restitutions that have taken place.

TenneT has lodged an appeal with CBB to challenge the regulator's decision on the revenue cap relating to the regulatory period 2014-2016. Specifically, TenneT challenges the regulator's downward adjustment of the efficiency parameter, based on an additional national run of the international TSO benchmark study (i.e. separate from the generic international TSO benchmark study) and the estimated frontier shift (productivity growth factor). TenneT also challenged the permitted rate of return, as it believes it does not sufficiently reflect the regulatory and investment risks that TenneT faces. In TenneT's view, the decisions will make it more difficult to achieve a reasonable rate of return on investments and do not support the necessary investments required to realise the transition to a more sustainable energy supply system. The CBB held several hearings in 2014 as part of the appeals procedure. A CBB decision is expected during the first quarter of 2015.

The Ministry of Economic Affairs is currently preparing an integral revision of the Dutch Electricity Act. The legislative process includes the appointment of TenneT as the offshore grid operator, and an enhancement of the investment plan approach. This provides TenneT TSO B.V. clarity on the need and necessity of investments and increases the financeability of investments by removing the regulatory time lag for TenneT's large projects. The timeline for the implementation of the legislation appears challenging with 1 January 2016 as the target date for the legislation to enter in force.

The Dutch Energy Agreement (Energieakkoord) states that offshore wind capacity up to 3,450 MW must be operational in 2023 and that TenneT should be assigned the responsibility to develop and operate the offshore grid. In 2014, the Minister of Economic Affairs confirmed his intention to appoint TenneT as the offshore grid developer and operator. 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. The legislative framework will provide clarity on the liability scheme, where the liability of TenneT will be capped and limited to gross negligence. The offshore investments will also benefit from the improved financing scheme and the depreciation period will be aligned with the expected life time of the offshore wind farms. Both the appointment of TenneT as the offshore grid developer and operator and the regulatory and legislative framework hereof are part of the integral revision of the Dutch Electricity Act.

Regulatory risks in Germany

A new offshore liability regime was implemented with effect from 28 December 2012, which reimburses the operators of offshore wind farms for financial and property damages caused by a delay, interruption or maintenance of the grid connection. However, the financial consequences to TSOs of this lack of availability are not fully covered by the offshore liability charge that can be levied under the new law. While the connecting TSO can generally pass on damage payments made to offshore wind farms, the amount that may be passed on to end consumers can be reduced in cases of negligence or wilful misconduct by the TSO. In cases of simple negligence, the deductible is capped at EUR 17.5 million per incident and cluster. 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 simple and/or gross negligence. In case of wilful misconduct on the part of the connecting TSO, no damage payments can be passed on

Risk management

to end-consumers. In 2015 the planned damage payments are lower than in 2014. Regarding damage payment volume 2014 is viewed as the peak year.

Under the German Incentive Regulation Ordinance ('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 this amount will be sufficient for 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 cover all operational costs after commissioning. The offshore lump-sum percentage does not include offshore grid losses. The costs for offshore grid losses are regulated by an effective procedural regulation following a decision by BNetzA on 9 October 2014 regarding TenneT Germany's system services. This agreement allows these costs to be reimbursed through a separate voluntary negotiated agreement (VNA) for offshore grid losses and to be included in the cost balancing mechanism.

The regulator evaluated the German incentive regulation system in 2014 and the results were reported to the Federal Ministry of Economics and Energy on 21 January 2015. Following consultation of the results, changes to the regulatory ordinances may be initiated for the new regulatory period that starts in 2019. TenneT is actively participating in the evaluation process and four separate models have been presented in a report prepared by the BNetzA. While the German regulator did not propose major changes it remains to be seen whether this will hold throughout the political process.

On 9 November 2012, the regulator notified TenneT that TenneT Germany would not be granted TSO certification due to a perceived lack of financial resources, despite a contrary recommendation, for the time being, from the European Commission. During 2014, the appeal procedure in the Düsseldorf Higher Regional Court (Oberlandesgericht) was settled by both parties. BNetzA agreed it will certify TenneT Germany, without further examination, after fulfilling certain additional preconditions. We expect that these preconditions for certification will be fulfilled during 2015.

Statements of the Executive Board

In-control statement

The Executive Board is responsible for designing and operating TenneT's risk management and internal control system and for reviewing its effectiveness.

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 monthly flash reports with information on corporate objectives and their achievements;
- Tax, IT and Business Control Frameworks (BCF) 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 recommendations from the external auditor's management letter;
- An internal 'letter of representation' process.

The Executive Board reviews and analyses the strategic, operational, financial and compliance risks to which TenneT is exposed. It also 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 in the year under review.

Statement of responsibility

We confirm that the financial statements for the period 1 January to 31 December 2014 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 fair review of TenneT's financial position, financial performance and cash flow of TenneT as a whole, and that the disclosures in the annual report give a fair review 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 2015

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

* Statutory Director

Report by the Supervisory Board

The transition to renewable energy is rapidly changing the energy market and holds significant challenges for TenneT. To prepare and modernise the grid to support the ever-growing demand for energy requires major investments and carefully balanced decisions. The Supervisory Board is closely involved in these developments, both as a supervisor and as an adviser and sounding board to the Executive Board.

Supervision and advice

The Supervisory Board assesses whether the Executive Board is acting in compliance with the company's strategic, societal, financial and technical objectives. In every meeting TenneT's safety performance and security of electricity supply is addressed. Other topics of discussion are outlined below.

Security of supply and investments

A recurring topic in the Supervisory Board meetings in 2014 was the extensive investment programme that TenneT is undertaking to maintain its high level of grid reliability and to support the transition to renewable energy. On the agenda were a number of substantial and complex investments to strengthen the Dutch and German onshore grid, offshore grid connections and interconnector capacities with other countries. The Supervisory Board assessed these investments from a strategic, societal, financial and technical point of view, as well as their impact on TenneT's ongoing financeability. As some of these aspects may be conflicting with each other, all aspects and alternatives were carefully considered.

Safety

Strengthening TenneT's safety culture is a subject of constant attention. TenneT's performance with regard to Lost Time Injury Frequency (LTIF) is benchmarked against the most relevant peer group and the overall best performing companies. In 2014, the Supervisory Board endorsed TenneT's Safety Vision 2018 and endorsed the roadmap for putting it into action. In addition, individual safety incidents were discussed, including potential learnings as well as practices from other industries.

Risk management

As part of the 2014 annual strategic risk assessment individual interviews were conducted with the members of the Supervisory Board. The outcome of these was discussed by the Executive Board and the final set of strategic risks was elaborated upon in both the Audit Committee and the plenary Supervisory Board. For each of the risks, relative probability and impact on the strategy of the company were considered.

Quarterly project reports, which focus on the progress of large projects, were reviewed by the Strategic Investments Committee and subsequently by the Supervisory Board. Particular focus was placed on timely delivery, risks of delays and interruptions.

Financing

With regard to TenneT's financing position, its financing structure and the overall financing plan, the Supervisory Board took into account and weighed shareholder objectives, the long-term continuity of the company and short-term liquidity needs. Topics discussed included the financing structure of TenneT Group, cash flow and liquidity forecasts, equity solutions and several debt financing instruments. Additional equity financing provided by Copenhagen Infrastructure Partners (CIP) for a specific offshore project (DoIWin3) in Germany was approved. Furthermore, the Supervisory Board discussed and confirmed the revised Treasury Statute.

Cross-participations

In October 2013, the shareholder published its policy on state-owned companies ('Nota Deelnemingenbeleid Rijksoverheid 2013'). It states that the Dutch Ministry of Finance wishes to maintain its current 100% ownership of TenneT. It is not seeking third parties to take a minority shareholding in TenneT at this point in time, but is offering the possibility for strategic cross-participations with other TSOs. In 2014, the Supervisory Board discussed whether cross-participations are desirable and feasible and will further elaborate on this topic in 2015. Strategic options were reviewed in terms of, among others, strategic fit, size, potential synergies and complexity.

Offshore

TenneT is preparing to put five German offshore grid connections into operation in 2015. This challenging preparation process was intensively discussed by the Supervisory Board. In addition, the regulatory coverage for operating expenses associated with these investments was discussed at length, including the risk of future undercompensation.

Another topic that was discussed in detail during several Supervisory Board meetings was the Dutch Ministry of Economic Affairs' intention to appoint TenneT as the responsible party for development and operation of the Dutch Offshore grid connections, as well as the regulatory conditions required to make this an attractive investment for the company.

Integrated reporting and audit

The Supervisory Board discussed the financial statements for the 2013 financial year, the 2014 internal quarterly reports and the 2014 interim results. The meetings also covered the management letters and auditor's reports. Related topics included the annual business plan for 2015 and the medium-term plan for 2015-2017, internal audit reports and the tax report. The Supervisory Board welcomed the achievements of TenneT in integrated reporting, which resulted in a higher ranking on the Transparency Benchmark (2013: 30th place; 2012: 101st place).

Other topics

Supervisory Board meetings have also focused topics including: the evaluation of the acquisition of the German activities; the performance and update of the business cases of both the NorNed and BritNed cables; the Dutch legislative process 'STROOM'; the development of power

exchanges; the location and building concept of TenneT TSO GmbH; the internal 'Power to Perform' performance management project and the results of the Employee Survey.

Selection, appointments, remuneration and performance

The Supervisory Board is involved in the selection and succession processes at Executive Board level. The Executive Board consists of six members, four statutory directors and two non-statutory directors. In the first half of 2014, the Supervisory Board nominated Mr Urban Keussen to succeed Mr Martin Fuchs as Vice Chair of the Executive Board of TenneT Holding B.V. and Managing Director of TenneT TSO GmbH. Mr Urban Keussen commenced at TenneT at 15 October 2015. The Supervisory Board is grateful to Mr Fuchs for his contribution, which was crucial for the internal integration of TenneT after the acquisition of the German activities in 2010.

The Supervisory Board frequently discussed matters relating to performance and remuneration. In 2014, specific topics included the performance of statutory directors of the Executive Board, the review of senior management, succession planning, proposals for variable remuneration of statutory directors of the Executive Board and the 2013 remuneration report.

TenneT's Executive Board and Supervisory Board consist of people with diverse experiences, skills and knowledge. TenneT values this diversity and believes it contributes positively to the way situations are assessed and decisions are made. TenneT is aware that women are currently underrepresented in both the Executive Board and the Supervisory Board and takes this into account for new appointments by making gender one of the assessment criteria and by a focussed search for qualified female candidates. When multiple qualified candidates are available, the candidate that contributes to a more equal division in gender will in principle be preferred. This approach resulted in the appointment of Mrs. Hottenhuis as member of the Supervisory Board in 2013. In 2014, in the search for a new Vice Chair of the Executive Board, the same approach was followed but did not lead to the appointment of a female candidate. For future appointments, TenneT will continue its current approach and will make serious efforts to comply with the gender equality targets as described in the Dutch law and as set by the European Commission, to ensure a more equal gender representation in the Boards by 2020.

Composition and meetings of the Supervisory Board

Composition of the Supervisory Board

The Supervisory Board's composition takes into account the nature of the company, the required expertise and background of its members and diversity. The Supervisory Board currently comprises five members but will, as agreed with the shareholder, extend its size to six.

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.

All Supervisory Board members are independent in accordance with the Corporate Governance Code. Furthermore the Supervisory Board complies with the Electricity Act, which stipulates that the majority of the Supervisory Board members has no direct or indirect links with legal entities (or shareholders thereof) engaged in the production, purchase or supply of electricity or gas. It is noted that Mr. Zwitterloot was a member of the Supervisory Board of EBN B.V. in 2014.

In addition to being a member of the Supervisory Board, Mr Zwitterloot is also a member of the Aufsichtsrat, the German equivalent of the Supervisory Board, at TenneT TSO GmbH. Former Supervisory Board member Mr Jan Vugts held this role until 18 March 2014.

More information on the members of the Supervisory Board can be found in the section Corporate Governance | Supervisory Board of this annual report.

Supervisory Board meetings

The Supervisory Board held six meetings in 2014. All meetings were attended in full, except for one, which had one absentee who shared his views on the topics on the agenda with the chairman of the Supervisor Board before the meeting.

For Supervisory Board meetings, the relevant topics were prepared by the three committees as described below. All meetings of the Supervisory Board and its committees were attended by the Company Secretary.

Supervisory Board Committees

The Supervisory Board has three committees: the Audit Committee, Remuneration and Appointments Committee and the Strategic Investments Committee. Each Supervisory Board member serves on at least one of the three committees.

The Chairman of the Supervisory Board does not act as chairman of any of the committees. The committees are tasked to prepare the plenary Supervisory Board discussion on delegated subjects and to advise the Supervisory Board. At Supervisory Board meetings, each committee chairman reports on the respective committees' subjects discussed and their agendas, documents and minutes are submitted to the Supervisory Board ahead of its meetings.

During 2014, the committee meetings were fully attended.

Audit Committee

The Audit Committee monitors 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.

In 2014, the Audit Committee consisted of Mr Pieter Verboom (Chair) and Mr Aad Veenman. It held five meetings attended by the Chair of the Executive Board, the CFO, the senior manager Internal Audit and the senior manager Corporate Control. Four were attended by the company's external auditor.

Remuneration and Appointments Committee

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 appointing new board members and supervises the recruitment process.

In 2014, the Remuneration and Appointments Committee consisted of Mrs Stephanie Hottenhuis (Chair) and Mr Aad Veenman. The committee held five meetings, each in the presence of the Chairman of the Executive Board and the senior manager Human Resources. Discussions on the remuneration report also included the presence of the CFO. Several additional telephone conferences were held regarding the recruitment and appointment of the Vice Chair of the Executive Board.

Strategic Investments Committee

The Strategic Investments Committee prepares a review for the Supervisory Board of investment proposals submitted by the Executive Board. It assesses whether such proposals are compatible with the company's economic, financial and technical objectives as well as the risk profile and stakeholder impact. The Strategic Investments Committee also monitors timeliness, quality, cost efficiency and associated risks of large projects.

In 2014, the Strategic Investments Committee consisted of Mr Rien Zwitserloot (Chairman) and Mr Hans Fischer. The committee held four meetings, each with several members of the Executive Board. Mr Aad Veenman attended all the meetings as a guest.

Supervisory Board performance appraisal

In the second half of 2014, the Supervisory Board evaluated its own performance with support of an external consultant (a "Board Effectiveness Review"). Input was gathered from the members of the Supervisory Board, the Executive Board, the shareholder, the Works Council and the Company Secretary. Results of this Board Effectiveness Review were discussed during the Supervisory Board meeting in November 2014. Furthermore individual meetings with the members of the Supervisory Board to discuss personal feedback were conducted by the consultant. The results of the Board Effectiveness Review were also shared with and discussed by the Executive Board.

In February 2015 the follow up on the Board Effectiveness Review was discussed by the Supervisory Board. Amongst others, the talent management processes will be addressed in the course of 2015 and the regular management review will not only be discussed in the Remuneration and Appointments Committee but in the full Supervisory Board.

Permanent education

After their appointment, new Supervisory Board members participate in a programme introducing them to the key business areas of TenneT.

The Supervisory Board considers permanent education of utmost importance. In 2014, in-depth workshops in respect of offshore operations and maintenance and in respect of information technology were held. Furthermore, site visits are undertaken each year. In 2014, the construction site of the DoWin2 platform was visited. These site visits and workshops (which were presented by the relevant senior managers) also offer an opportunity for the Supervisory Board members to meet with TenneT employees across the company.

Contact with the shareholder

Given the topics on the Supervisory Board's agenda in 2014, there was frequent contact with the shareholder outside the General Meeting of Shareholders.

The shareholder and the Supervisory Board conferred on several occasions about the appointment of the Vice Chair of the Executive Board and the related remuneration. They also discussed the re-appointment of one of the Supervisory Board members and the ongoing selection process of a sixth member to the Supervisory Board.

A recurring topic every year is the remuneration of the Executive Board, specifically the variable remuneration that is an element of overall remuneration.

Other key topics during the year 2014 were the amendment of the company's articles of incorporation and dividend payout. The shareholder wishes to introduce generic articles of incorporation for all state-owned companies. However, not all of the proposed articles are consistent with the Supervisory Board's view on corporate governance. The Supervisory Board expects a conclusion of this discussion in the first half of 2015. With respect to dividend payout, the Supervisory Board and the shareholder discussed the appropriate level in light of future equity needs of the company, weighing budgetary expectations of the shareholder against the long-term capital needs of the company.

Several members of the Supervisory Board took part in the 'Staatsdeelnemendag' (Government Participations Day) organised and hosted by the Dutch Minister of Finance. The Supervisory Board welcomed this opportunity to discuss topics related to state ownership.

Contact with the Works Council

The Supervisory Board places great importance on fostering a good relationship with the Works Council, which represents employee interests. The Chairman of the Supervisory Board met regularly with members of the Works Council during the year to keep abreast of employee issues under its remit.

The Supervisory Board considers contact with the Works Council as vital, given the rapid developments in the energy market in general and at TenneT in particular. The Supervisory Board greatly appreciates the constructive way in which the Works Council addresses these topics.

Report by the Supervisory Board

In November 2014, the Supervisory Board had a special meeting with the Works Council and the Executive Board to discuss the alignment of external developments and internal organisation. The Supervisory Board welcomed this opportunity for an active dialogue with the Works Council.

Financial statements

The Supervisory Board has, based on the preparatory work and advice of the Audit Committee, examined the 2014 integrated annual report, the 2014 financial statements and the independent auditor's report and assurance report issued by EY. It endorses these documents and recommends the General Meeting of Shareholders to adopt the financial statements.

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 past year, TenneT successfully met significant challenges in the energy market while simultaneously working on a huge number of investment projects. Throughout, TenneT remained absolutely focused and dedicated to safeguarding the safety and security of supply. TenneT's efforts resulted in outstanding operational and financial results. In recognition of these achievements, the Supervisory Board would like to thank the members of the Executive Board and all TenneT employees. It is your contribution and continuous commitment that made this possible.

A.W. Veenman (chair), P.M. Verboom (vice-chair),
J.L.M. Fischer, S. Hottenhuis, R.G.M. Zwitserloot

Arnhem, 10 March 2015

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 2014, 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 norm against a group of reference companies relevant to TenneT, comprising 75% (semi) public and 25% private companies.

Remuneration norm

This benchmarking method resulted in a 'norm' level of remuneration for TenneT directors that exceeds the maximum desired by the shareholder of EUR 365,000 (as at 1 January 2014).

On the appointment of a new statutory director, the Supervisory Board shall, at the request of the shareholder, limit the sum of fixed and variable remuneration to a maximum of EUR 365,000 (as at 1 January 2014).

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-chair shall be between the remuneration of the CEO and the remuneration of the CFO and COO.

If, in the opinion of the Supervisory Board, the maximum remuneration as required by shareholder 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 the shareholder.

The Supervisory Board decides on the annual increase in the base salary. If the total remuneration of a statutory director has reached its maximum, further increases will be limited to the structural increments as agreed upon in the 'NWb' Collective Labour Agreement for grid companies which is applicable to all Dutch TenneT employees.

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.

Remuneration report

Performance targets fall into four categories: Security of Supply and Safety, Strategy, Operations and Finance. 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 salary 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.

Service agreement and compensation for early termination

Directors are appointed as statutory directors for a period of four years. The total set of agreed employment terms and conditions is recorded in a service agreement for an undefined period. If the contract is terminated within that period, compensation ('severance pay') will generally be limited to the equivalent of one year's fixed salary. If such compensation is considered unreasonable in the first term of appointment, up to two years' fixed salary may be paid at the discretion of the Supervisory Board, following consultation with the shareholder.

Other allowances and secondary benefits

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

Secondary benefits also include a nominal contribution towards health insurance premiums and the choice of other flexible individualised benefits. In addition, directors receive a percentage of their fixed salary in the form of an employer's contribution to a life-course savings scheme. The exact percentage is established by the Collective Labour Agreement Nwb. The above benefits are applicable to all other TenneT employees of TenneT TSO B.V. The company does not extend loans, loan guarantees or advances against future earnings.

Pensions

The directors participate in a pension regulation according to pension as defined in the Collective Labour Agreement and as applicable for all employees. The employers and employee contribution for the directors is the same as for all other employees. The applicable pension regulations define the pensionable salary which does not include variable salary.

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 appointment of the Chief Executive Officer dating from 2002 is for an undefined period of time, while compensation for termination of the contract by the company (severance pay) is based on the then standard neutral formula used by the Dutch court with a maximum of two yearly base salaries.

Other important deviations from the current remuneration policy relate to the non-applicability of the long-term variable remuneration and remuneration norm.

Remuneration of the statutory directors

Fixed and variable remuneration

(in EUR thousand)	Fixed Remuneration		Variable Remuneration (annual)		Variable Remuneration (long term)	
	2014	2013	2014	2013	2014	2013
J.M. Kroon Chief Executive Officer	331	327	80	70	n/a	n/a
M.J. Fuchs Vice-chair Executive Board til 1 July 2014	136	268	118	235	n/a	n/a
U.T.V. Keussen Vice-chair Executive Board as of 15 October 2014	63	n/a	14	n/a	6	n/a
B.G.M. Voorhorst Chief Operating Officer	252	249	54	51	n/a	n/a
E.T.A. de Boer ¹⁾ Chief Financial Officer till 1 August 2013	n/a	198	n/a	40	n/a	-
O. Jager Chief Financial Officer as of 1 August 2013	230	95	51	21	23	10

1) Mr. De Boer resigned as a statutory director per 1 August 2013 and left the company per 31 October 2013, after transferring his duties.

Fixed remuneration

With effect from 1 January 2014 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 1.2%.

In 2014 the shareholder allowed the Supervisory Board to exceed the remuneration norm as defined in the TenneT remuneration policy to enable the appointment of a qualified candidate as Vice-chair of the Executive Board. The shareholder agreed upon this exception for Urban Keussen after having concluded that the resulting remuneration

is below the median of the German remuneration market as well as the remuneration in comparable TSO's and below the remuneration of the former Vice-chair.

Variable remuneration

Based on achievement of present targets, the Supervisory Board decided to award the statutory directors variable payment realisation percentages between 85 and 90%, which resulted in the following remunerations over 2014. The Supervisory Board has concluded that there are no current insights that might lead to the revision of the variable remuneration paid out in former years.

	J.M. Kroon		M.J. Fuchs		U.T.V. Keussen		B.G.M. Voorhorst		O. Jager	
	Rel	Max	Rel	Max	Rel	Max	Rel	Max	Rel	Max
Security of Supply and Safety	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%
Security of Supply	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%
Safety	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%
Strategy	15%	25%	12%	20%	12%	20%	12%	20%	15%	25%
Operations	30%	30%	30%	35%	30%	35%	33%	40%	28%	30%
Individual targets depending on individual Board member's portfolio	30%	30%	30%	35%	30%	35%	33%	40%	28%	30%
Financial	15%	15%	15%	15%	15%	15%	10%	10%	15%	15%
EBIT	15%	15%	15%	15%	15%	15%	10%	10%	15%	15%
Total annual variable remuneration realised	90%		87%		87%		85%		88%	
Total annual long-term remuneration realised	n/a		n/a		100%		n/a		100%	

Remuneration report

Pension cost

Pension contributions

(in EUR thousand)	2014	2013
J.M. Kroon Chief Executive Officer	153	159
M.J. Fuchs Vice-chair Executive Board til 1 July 2014	85	187
U.T.V. Keussen Vice-chair Executive Board as of 15 October 2014	20	n/a
B.G.M. Voorhorst Chief Operating Officer	46	48
E.T.A. de Boer ¹ Chief Financial Officer till 1 August 2013	n/a	38
O. Jager Chief Financial Officer as of 1 August 2013	41	13

1) Mr. De Boer resigned as a statutory director per 1 August 2013 and left the company per 31 October 2013, after transferring his duties.

The pensions of all Dutch statutory directors are administered by the ABP Pension Fund, which in 2014 lowered its pension premium from 25.7% in 2013 to 21.9% in 2014. 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. As of 2013, pension accruals considering the German income of the Dutch statutory directors based on the German activities are organized in a standard defined contribution contract with Swiss Life, in which the actual

ABP premium defines the yearly contribution. The pension entitlements of the German former Vice-chair are accrued through a reserve on the balance sheet of TenneT TSO GmbH. The pension entitlements of the new German Vice-chair are based on the so-called Beitragsplan, a company agreement applicable for all employees of TenneT TSO GmbH and TenneT GmbH Co. KG.

Based on an agreement with the Supervisory Board from 2010, the Chief Executive Officer acquired leave days in 2014 with a value of EUR 24,624 and in 2013 for EUR 24,336.

Other allowances and secondary benefits

Secondary benefits and private use of company cars

(in EUR thousand)	Secondary benefits		Estimated value private use company car ²⁾	
	2014	2013	2014	2013
J.M. Kroon Chief Executive Officer	8	8	4	5
M.J. Fuchs Vice-chair Executive Board til 1 July 2014	-	1	4	8
U.T.V. Keussen Vice-chair Executive Board as of 15 October 2014	-	n/a	1	n/a
B.G.M. Voorhorst Chief Operating Officer	6	6	8	8
E.T.A. de Boer ¹ Chief Financial Officer till 1 August 2013	n/a	5	n/a	-
O. Jager Chief Financial Officer as of 1 August 2013	6	2	6	3

1) Mr. De Boer resigned as a statutory director per 1 August 2013 and left the company per 31 October 2013, after transferring his duties.

2) Based on estimated private mileage

Remuneration report

All statutory directors make use of a company car, the estimated value of the private use of this car is shown in the above table. 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 company does not reimburse its directors for any personal income tax consequence resulting from the private use of leased cars.

Each statutory director receives a monthly allowance for necessary business expenses, with a value of EUR 3,300 per year. This monthly allowance is not included in the table above as it is a compensation of costs and not a remuneration component.

For the Dutch statutory directors the secondary benefits as reflected in the above table contain the 'NWB' Collective Labour Agreement for grid companies based contribution to the life-course savings scheme, a contribution to health insurance and a budget for flexible terms of employment. There are no comparable Tarifvertrag based secondary benefits or allowances for the German statutory directors,

which thus only receive the budget for flexible terms of employment as the contribution to health insurance and the life-course savings scheme are related to the Dutch pension and health insurance system.

The total remuneration paid to the statutory directors is further disclosed in note 3.2.2. Personnel expenses of the Notes to the consolidated financial statements.

Remuneration of the Supervisory Board

In 2014 the remuneration of the Supervisory Board is unchanged.

Each Supervisory Board member sits on one or two committees. To establish a link between the Supervisory Board and the *Aufsichtsrat* of TenneT TSO GmbH, one of the members of the Supervisory Board is also a member of the *Aufsichtsrat*.

During 2014, the responsibilities within the committees were as follows:

	Supervisory Board	Audit Committee	Remuneration and Appointments Committee	Strategic Investments Committee	Aufsichtsrat TenneT TSO GmbH
A.W. Veenman	Chair	Member	Member		
P.M. Verboom	Vice-chair	Chair			
R.G.M. Zwitterloot	Member			Chair	Member
S. Hottenhuis	Member		Chair		
J.L.M. Fischer	Member			Member	

The remuneration policy for (the committees of) the Supervisory Board and the *Aufsichtsrat* was as follows in 2014:

(EUR)		
Chair	27,104	per annum
Vice-chair	21,798	per annum
Member	19,454	per annum
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

Remuneration report

The total remuneration received by members of the Supervisory Board in 2014 was as follows:

(in EUR thousand)	Fixed remuneration		Committee fee		Total remuneration	
	2014	2013	2014	2013	2014	2013
A.W. Veenman	27	27	12	10	39	37
P.M. Verboom	22	20	7	6	29	26
J.F.T. Vugts till 31 December 2013	n/a	22	n/a	12	n/a	34
J.F. van Duyne till 26 October 2013	n/a	16	n/a	9	n/a	25
R.G.M. Zwitserloot	20	20	11	5	31	25
S. Hottenhuis as of 1 September 2013	20	6	5	1	25	7
J.L.M. Fischer as of 1 January 2014	20	n/a	5	n/a	25	n/a



J.M. (Mel) Kroon
Chair Executive Board



U.T.V. (Urban) Keussen
Vice-chair Executive Board



B.G.M. (Ben) Voorhorst
Member Executive Board

Executive Board

J.M. (Mel) Kroon^{*)}

Chair Executive Board /
Chief Executive Officer

1957, Dutch

Initial appointment: 2002

Positions qualitate qua:

- Chair Supervisory Board TenneT TSO GmbH
- Member Supervisory Board EPEX SPOT S.E.
- Member Supervisory Board APX Holding B.V.
- Chair Supervisory Board NOVEC B.V.
- Member Board of Directors (Conseil d'Administration) Powernext S.A. ¹⁾
- Chair Supervisory Board TSCNET Services GmbH
- Member Board CASC.EU

Other positions:

- Member Supervisory Board Havenbedrijf Rotterdam N.V.
- Member Supervisory Board HTM Personenvervoer N.V.
- Member of the Board Dutch-German Chamber of Commerce

^{*)} Statutory director

¹⁾ until 1 November 2014

²⁾ Until 31 December 2014

³⁾ From 1 January 2015

U.T.V. (Urban) Keussen^{*)}

Vice-chair Executive Board /
Chair Board TenneT TSO GmbH

1964, German

Initial appointment: 15 October 2014

Positions qualitate qua:

Member Assembly ENTSO-E

B.G.M. (Ben) Voorhorst^{*)}

Member Executive Board /
Chief Operating Officer

1959, Dutch

Initial appointment: 2006

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) ²⁾
- Member Board of the Netherlands Association for Energy Data Exchange (Nedu)
- Member Cyber Security Council
- Member Board ENTSO-E
- Member Supervisory Board EPEX SPOT S.E. ³⁾



O. (Otto) Jager
Member Executive Board



A.A. (Lex) Hartman
Member Executive Board



W. (Wilfried) Breuer
Member Executive Board

O. (Otto) Jager^{*)}
Member Executive Board /
Chief Financial Officer

1970, Dutch

Initial appointment: 2013

Positions qualitate qua:

- Member Board TenneT TSO B.V.
- Member Supervisory Board TenneT TSO GmbH
- Member Board Open Tower Company B.V.

W. (Wilfried) Breuer
Member Executive Board /
Director Offshore

1965, German

Initial appointment: 1 January 2014

Positions qualitate qua:

- Managing Director TenneT Offshore GmbH
- Member of Cigre German Committee

A.A. (Lex) Hartman
Member Executive Board /
Director Corporate Development

1956, Dutch

Initial appointment: 2008

Positions qualitate qua:

- Member Board TenneT TSO GmbH
- Chair Board BritNed Development Ltd.
- Director NLink International B.V.
- Chair Steering Committee NorNed
- Member Management board FLOW – Far and Large Offshore Wind

^{*)} Statutory director



A.W. (Aad) Veenman
Chair Supervisory Board



P.M. (Pieter) Verboom
Vice-chair Supervisory Board

Supervisory Board

A.W. (Aad) Veenman

Chair Supervisory Board /
Member Remuneration and Appointment Committee /
Member Audit Committee

1947, 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 Chair 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.
- Chair Economic Cluster Logistics

P.M. (Pieter) Verboom

Vice-Chair Supervisory Board /
Chair Audit Committee

1950, Dutch

Initial appointment: 18 September 2012
Expiration first term: 18 September 2016

Principal position:

CFO of RFS Holland Holding
Former Executive vice president and CFO Schiphol Group

Other positions:

- Vice-Chair of the Supervisory Board and Chair of the Audit Committee of VastNed Retail N.V.
- Chair Curatorium Master Register Controllers and Advisor Programme 'The new CFO' (Erasmus University Rotterdam)
- Expert lay member of the Dutch Enterprise Court
- Member of the Supervisory Board of Brisbane Airport Corporation
- Adviser to John F. Kennedy Airport, New York



J.L.M. (Hans) Fischer
Member Supervisory Board



S. (Stephanie) Hottenhuis
Member Supervisory Board



R.G.M. (Rien) Zwitserloot
Member Supervisory Board

J.L.M. (Hans) Fischer
Member Supervisory Board /
Member Strategic Investments Committee

1956, German

Initial appointment: 1 January 2014
Expiration first term: 1 January 2018

Principal position:

Chief Technical Officer, Tata Steel Europe and Site-Director
Tata Steel in IJmuiden

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
- Chair of the Management Board of FOSTA –
Forschungsvereinigung Stahlanwendung e. V.
- Member of Amsterdam Economic Board

R.G.M. (Rien) Zwitserloot
Member Supervisory Board /
Chair Strategic Investments Committee

1949, Dutch

Initial appointment: 24 November 2010
Expiration first term: 24 November 2014
Expiration second term: 24 November 2018

Principal position:

Former CEO 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.

S. (Stephanie) Hottenhuis
Member Supervisory Board /
Chair Remuneration and Appointment Committee

1965, Dutch

Initial appointment: 1 September 2013
Expiration first term: 1 September 2017

Principal position:

Member of Executive Board Arcadis N.V.

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Consolidated financial statements

Consolidated statement of income

for the year ended 31 December (EUR million)

	Notes	2014	2013
Revenue	3.1	2,597	2,429
Grid expenses	3.2.1	925	986
Personnel expenses	3.2.2	172	164
Depreciation and amortisation of assets	4.1, 4.2	321	251
Other operating expenses	3.2.3	243	265
Other (gains)/losses	3.2.4	7	-26
Total operating expenses		1,668	1,640
Share in profit of joint ventures and associates	4.3, 4.4	32	15
Operating profit		961	804
Finance income	3.3	10	13
Finance expense	3.3	-135	-123
Finance result		-125	-110
Profit before income tax		836	694
Income tax expense	3.4	232	190
Profit for the year		604	504
Profit attributable to:			
Equity holders of ordinary shares	4.8.2	508	393
Hybrid securities	4.8.2	33	33
Owners of the company		541	426
Non-controlling interests	4.8.3	63	78
Profit for the year		604	504

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

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

	Notes	2014	2013
Net income per share	3.5	2,705	2,130
Basic and diluted earnings per share	3.5	2,580	2,005

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		
		4.8.2		4.8.2	4.8.2		4.8.2		4.8.3	
2013										
<i>Other comprehensive income to be reclassified to profit or loss in subsequent years:</i>										
OCI movements in associates	4.4	-	-	-1	-	-1	-	-1	-	-1
Taxation	3.4	-	-	-	-	-	-	-	-	-
		-	-	-1	-	-1	-	-1	-	-1
<i>Items not to be reclassified to profit or loss in subsequent years:</i>										
Re-measurement of defined benefit pensions	4.11	-	-	7	-	7	-	7	-	7
Taxation	3.4	-	-	-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
2014										
<i>Other comprehensive income to be reclassified to profit or loss in subsequent years:</i>										
Amortisation of hedges	4.8.2	-1	-	-	-	-1	-	-1	-	-1
OCI movements in associates	4.4	-	-	-	-	-	-	-	-	-
Taxation	3.4	-	-	-	-	-	-	-	-	-
		-1	-	-	-	-1	-	-1	-	-1
<i>Items not to be reclassified to profit or loss in subsequent years:</i>										
Re-measurement of defined benefit pensions	4.11	-	-	-54	-	-54	-	-54	-	-54
Taxation	3.4	-	-	16	-	16	-	16	-	16
		-	-	-38	-	-38	-	-38	-	-38
Total other comprehensive income 2014		-1	-	-38	-	-39	-	-39	-	-39
Profit for the year		-	-	-	508	508	33	541	63	604
Total comprehensive income 2014		-1	-	-38	508	469	33	502	63	565

Consolidated statement of financial position

for the year ended 31 December (EUR million)

Assets	Notes	2014	2013
Non-current assets			
Tangible fixed assets	4.1	10,333	8,360
Intangible assets	4.2	118	130
Investments in joint ventures	4.3	272	280
Investments in associates	4.4	13	18
Deferred tax assets	3.4	8	-
Other financial assets	4.9.1	116	17
Total non-current assets		10,860	8,805
Current assets			
Inventories		13	13
Account- and other receivables	4.5	1,934	1,849
Financial assets	4.9.2	15	53
Income tax receivable	3.4	5	1
Cash and cash equivalents	4.6	122	550
		2,089	2,466
Assets of disposal group classified as held for sale	4.7	519	3
Total current assets		2,608	2,469
Total assets		13,468	11,274

Consolidated statement of financial position

for the year ended 31 December (EUR million)

Equity and liabilities	Notes	2014	2013
Equity			
Equity attributable to ordinary shares	4.8.2	2,816	2,439
Hybrid securities	4.8.2	520	520
Equity attributable to owners of the company		3,336	2,959
Non-controlling interests	4.8.3	852	401
Total equity		4,188	3,360
Non-current liabilities			
Borrowings	4.9.3	2,627	3,147
Deferred income	4.10	216	232
Deferred tax liability	3.4	497	468
Provisions	4.11	686	405
Other liabilities		1	15
Total non-current liabilities		4,027	4,267
Current liabilities			
Account- and other payables	4.12	3,601	2,828
Borrowings	4.9.3	698	67
Other financial liabilities	4.9.4	38	423
Deferred income	4.10	5	5
Income tax payable	3.4	181	103
Provisions	4.11	240	217
Bank overdrafts	4.6	-	4
		4,763	3,647
Liabilities of disposal group classified as held for sale	4.7	490	-
Total current liabilities		5,253	3,647
Total equity and liabilities		13,468	11,274

Consolidated statement of changes in equity

for the year ended 31 December (EUR million)

	Notes	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
		4.8.2		4.8.2		4.8.2			4.8.2		4.8.3	
Balance at 1 January 2013		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	4.8.2	-	-	-	-	-	-59	-59	-	-59	-	-59
Distribution on hybrid securities	4.8.2	-	-	-	-	-	-	-	-33	-33	-	-33
Taxation on distribution on hybrid securities	4.8.2	-	-	-	-	-	8	8	-	8	-	8
Issue of hybrid securities	4.8.2	-	-	-	-	-3	-	-3	3	-	-	-
Sale of subsidiary	4.8.3	-	-	-	-	-3	-	-3	-	-3	-12	-15
Sale to non-controlling interest	4.8.2	-	-	-	-	-2	-3	-5	-	-5	23	18
Capital contribution	4.8.3	-	-	-	-	-	-	-	-	-	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
Total comprehensive income		-	-	-1	-	-38	508	469	33	502	63	565
Dividends paid	4.8.2, 4.8.3	-	-	-	-	-	-98	-98	-	-98	-37	-135
Distribution on hybrid securities	4.8.2	-	-	-	-	-	-	-	-33	-33	-	-33
Taxation on distribution on hybrid securities	4.8.2	-	-	-	-	-	8	8	-	8	-	8
Sale to non-controlling interest	4.8.2	-	-	-	-	13	-15	-2	-	-2	366	364
Capital contribution	4.8.3	-	-	-	-	-	-	-	-	-	59	59
Appropriation remaining prior year profit		-	-	-	-	300	-300	-	-	-	-	-
Balance at 31 December 2014		100	600	4	-2	1,621	493	2,816	520	3,336	852	4,188

Consolidated statement of cash flows

for the year ended 31 December (EUR million)

	Notes	2014		2013	
<i>Operational activities</i>					
Operating profit			961		804
Non-cash adjustments to reconcile profit to net cash flows:					
Depreciation, amortisation and impairment of assets	4.1, 4.2	321		251	
Result on disposal of assets	3.2.4	7		-	
Gain on disposal of subsidiary	3.2.4	-		-25	
Share in profit of joint ventures and associates	4.3, 4.4	-32		-15	
Dividends received from joint ventures and associates	4.3, 4.4	48		20	
Increase in deferred income	4.10	-16		21	
Movements in provisions and other (financial) liabilities and assets		-143		100	
			185		352
Working capital adjustments excluding EEG working capital:					
(Increase)/decrease in account- and other receivables	4.5	-169		-96	
(Increase)/decrease in inventories		-		-2	
Increase/(decrease) in account- and other payables	4.12	-12		345	
Increase/(decrease) in current financial liabilities		1		7	
			-180		254
Income tax paid			-97		-5
Net cash flows from operating activities excluding EEG working capital adjustments			869		1,405
EEG working capital adjustments:					
(Increase)/decrease in EEG receivables	4.5	-104		477	
Increase/(decrease) in EEG payables	4.12	973		392	
			869		869
Net cash flows from operating activities			1,738		2,274

Continuation >

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	Notes	2014		2013	
Investing activities					
Purchase of tangible and intangible fixed assets		-2,146		-1,773	
Proceeds from sale of tangible and intangible fixed assets		9		6	
Proceeds from sale of subsidiary		-		28	
Acquisition of subsidiary	5.1	-6		-	
Capital contribution to joint ventures and associates	4.3, 4.4	-8		-2	
Contributions to financial assets	4.9.2	-12		-51	
Proceeds from repayment of financial assets	4.9.2	51		33	
Interest received		3		-	
Net cash flows used in investing activities			-2,109		-1,759
Financing activities					
Proceeds from borrowings	4.9.3	181		3,049	
Repayment of borrowings	4.9.3	-67		-3,385	
Debt issuance costs	4.9.3	-6		-1	
Interest paid		-120		-112	
Transaction costs of sale of non-controlling interests	4.8.3	-3		-	
Proceeds from issue of hybrid securities	4.8.2	-		3	
Dividends paid to ordinary shareholder of the company	4.8.2	-98		-59	
Distribution on hybrid securities	4.8.2	-33		-33	
Dividends paid to non-controlling interests	4.8.3	-37		-	
Proceeds from sale to non-controlling interests	4.8.3	366		16	
Proceeds from capital contributions by non-controlling interests	4.8.3	59		92	
Net cash flows from financing activities			242		-430
Net change in cash and cash equivalents			-129		85
Cash and cash equivalents at 31 December	4.6	417		546	
Cash and cash equivalents at 1 January	4.6	546		461	
			-129		85

Notes to the consolidated financial statements

1. General notes

TenneT Holding B.V. (hereafter referred to as 'TenneT' or 'the Group') is a leading electricity transmission system operator with activities in the Netherlands and in Germany. In the Netherlands, our activities are carried out by TenneT TSO B.V. and its subsidiaries. In Germany, our work is performed by TenneT GmbH & Co. KG and its subsidiaries.

The consolidated financial statements of TenneT Holding B.V. for the year ended 31 December 2014 were prepared by the Executive Board and authorised for issue in accordance with a resolution of the Supervisory Board on 10 March 2015.

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

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.

A summary of the accounting policies applied is included in note 6.

Basis for consolidation

The consolidated financial statements comprise the financial statements of TenneT Holding B.V. and its subsidiaries as at 31 December 2014. 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.

A list of the legal entities included in the consolidation of TenneT Holding B.V. is included in note 5.4.

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 4.1, 4.2 and 6), the impairment review of goodwill (note 4.2) and the establishment of provisions (note 4.11). Estimates are based on historical quoted market prices, experience and other assumptions that are considered reasonable under the relevant circumstances.

2. Segment information

For management information purposes TenneT's Executive Board considers the performance of its regulated activities in the Netherlands and in Germany separately. In addition, non-regulated activities are considered separately. Segment performance is evaluated based on earnings before interest and tax (EBIT). Financing activities (including finance income and expense) are managed on a Group basis and amounts related thereto 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. 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. The accounting policies applied for 'underlying' financial information are set out below.

2.1 Accounting policies applied for 'underlying' financial information

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.

The main requirement for the recognition of regulatory deferral accounts in 'underlying' financial information is that an existing 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 recognised in 'underlying' financial information for settlements (i.e. repayments) of current year revenues through 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 a 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.

2.2 'Underlying' segment information

For management purposes the Group is organised into the followings segments:

- TSO Netherlands
- TSO Germany
- Non-regulated companies

TSO Netherlands

The TSO Netherlands segment include all regulated activities in the Netherlands and reflects the consolidated 'underlying' information of TenneT TSO B.V. and its subsidiaries.

TSO Germany

The TSO Germany segment include all regulated activities in Germany and reflects the consolidated 'underlying' information of TenneT GmbH & Co. KG and its subsidiaries.

Non-regulated companies

The non-regulated companies segment includes all other companies within the TenneT Group. As presented, the financial information of this segment excludes the net asset value of consolidated subsidiaries, external borrowings and receivables/payables from/to consolidated subsidiaries of TenneT Holding B.V.

The 'underlying' segment information is as follows:

2014 (EUR million)	Revenue	EBIT	Assets	Liabilities	Investments
TSO Netherlands	653	124	3,856	2,458	323
TSO Germany	1,621	564	11,851	7,827	1,971
Non regulated companies	51	37	915	674	2
	2,325	725	16,622	10,959	2,296
Eliminations and adjustments	-20	-	-2,977	-550	-
Consolidated underlying information	2,305	725	13,645	10,409	2,296

2013 (EUR million)	Revenue	EBIT	Assets	Liabilities	Investments
TSO Netherlands	643	149	3,736	2,419	362
TSO Germany	1,589	437	9,029	5,651	1,504
Non regulated companies	44	34	1,063	710	2
	2,276	620	13,828	8,780	1,868
Eliminations and adjustments	-33	-	-2,294	161	-
Consolidated underlying information	2,243	620	11,534	8,941	1,868

2.3 Reconciliation 'underlying' segment information to consolidated 'underlying' information

Reconciliation of assets (EUR million)	2014	2013
Underlying segment assets as at 31 December	16,622	13,828
Eliminations of intercompany receivables	-2,602	-1,919
Elimination of participation held by TSO NL in non regulated company	-375	-375
Underlying consolidated assets as at 31 December	13,645	11,534

Reconciliation of liabilities (EUR million)	2014	2013
Underlying segment liabilities as at 31 December	10,959	8,780
Eliminations of intercompany payables	-3,875	-3,053
Borrowings	3,325	3,214
Underlying consolidated liabilities as at 31 December	10,409	8,941

2.4 Regulatory deferral accounts: reconciliation to IFRS figures

The difference between 'underlying' financial information and reported IFRS figures mainly relates to regulatory deferral accounts 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. Furthermore, the recognition of regulatory deferral accounts and different measurement of tangible fixed assets results in different deferred tax balances in 'underlying' financial information compared to IFRS reported figures.

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

2014 (EUR million)	EBIT	Assets	Liabilities	Recovery/ reversal period (years)
Consolidated underlying information	725	13,645	10,409	
To be settled in tariffs	195	-129	-147	0 - 3
Auction receipts	69	-	-990	0 - 10
Investment contributions	-11	-	-291	0 - 34
Maintenance of the energy balance	-21	-	-33	0 - 1
Difference in tangible fixed assets	4	-48	-	0 - 11
Effect on deferred tax balances	-	-	332	0 - 34
Consolidated IFRS financial statements	961	13,468	9,280	

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2013 (EUR million)	EBIT	Assets	Liabilities	Recovery/ reversal period (years)
Consolidated underlying information	620	11,534	8,941	
To be settled in tariffs	-28	-200	-23	0 - 3
Auction receipts	205	-	-904	0 - 10
Investment contributions	-11	-	-302	0 - 35
Maintenance of the energy balance	14	-	-54	0 - 1
Difference in tangible fixed assets	4	-53	-	0 - 12
Effect on deferred tax balances	-	-7	256	0 - 35
Consolidated IFRS financial statements	804	11,274	7,914	

To be settled in tariffs

Revenue surpluses and deficits resulting from differences between expected (ex ante) and realised (ex post) electricity transmission volumes and grid expenses 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 a 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 when realised.

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 Authority for Consumers & Markets (ACM). Imbalance settlements collected in one year are used in a subsequent year as an offset to 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.

3. Notes to the consolidated statement of income

3.1 Revenue

Revenue can be broken down as follows:

(EUR million)	2014	2013
Connection and transmission services	1,511	1,291
System services	174	202
Operation of energy exchanges	216	269
Maintenance of energy balance	91	185
Offshore services	454	399
Other	151	83
Total	2,597	2,429

Connection, transmission and system services

The revenue from connection, transmission and system services is to a large extent regulated by the ACM 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'.

3.2 Operating expenses

3.2.1 Grid expenses

Grid expenses involve (i) the purchase of regulating and reserve capacity, black-start facilities, emergency capacity, transmission restrictions and reactive power, (ii) grid losses, (iii) costs incurred in maintaining the balance between supply and demand of electricity and (iv) operating costs for the transmission grids, including the cost of maintaining systems used for the primary operating processes.

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3.2.2 Personnel expenses

Personnel expenses can be broken down as follows:

(EUR million)	2014	2013
Salaries	200	180
Social security contributions	25	23
Pension charges defined benefit plans	8	7
Pension charges other plans	13	13
Other personnel expenses	6	6
Capitalised costs for tangible fixed assets	-80	-65
Total	172	164

In 2014, the average workforce amounted to 2,635 FTEs (2013: 2,391 FTEs), of whom to 1,272 FTEs were employed in the Netherlands (2013: 1,211 FTEs).

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 and Supervisory Board is as follows:

Executive Board (EUR thousand)	Fixed	Variable	Pension	Total
2014	1,513	459	420	2,392
2013	1,398	469	509	2,376

The total Executive Board remuneration of EUR 2,392 thousand (2013: EUR 2,376 thousand) consists of remuneration paid to statutory directors of EUR 1,770 thousand (2013: EUR 2,077 thousand) and remuneration paid to non-statutory directors of EUR 622 thousand (2013: EUR 299 thousand). Pension remuneration equals (i) the contributions payable to the defined contribution plan for service rendered in the period or (ii), for defined benefit plans, the current service cost and, when applicable, past service cost. For further details on the pension plans reference is made to note 4.11.

Supervisory Board (EUR thousand)	Fixed	Committee fee	Total
2014	109	40	149
2013	111	43	154

3.2.3 Other operating expenses

Other operating expenses can be broken down as follows:

(EUR million)	2014	2013
Accommodation and office expenses	69	55
Consultancy expenses	17	18
Hiring of temporary personnel	22	24
Travel and living expenses	16	14
Other operating expenses	119	154
Total	243	265

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Other operating expenses in 2014 decreased due to lower expenses in connection with the recognition of a provision for potential claims in connection with offshore activities in Germany in that year. For further details reference is made to note 4.11.

Other operating expenses include independent auditor's fees of Ernst & Young Accountants LLP allocated to the financial year to which they relate:

(EUR thousand)	2014	2013
Audit of the financial statements	1,334	1,090
Other assurance services	564	119
Total assurance services	1,898	1,209
Tax consultancy	-	-
Other services	77	89
Total other services	77	89
Total auditor's fees	1,975	1,298

3.2.4 Other (gains)/losses

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

(EUR million)	2014	2013
(Gain) on disposal of subsidiary	-	-25
(Gain)/loss on disposal of assets	7	-1
Total	7	-26

The EUR 25 million gain in 2013 related to the gain on the sale of Endex B.V.

3.3 Finance income and expense

The finance income of EUR 10 million (2013: EUR 13 million) mainly relates to interest income from third parties, tax authorities and to the amortisation of the hedging reserve (note 4.8.2). The finance expenses can be broken down as follows:

(EUR million)	2014	2013
Interest on borrowings and credit facilities	121	115
Capitalised interest on assets under construction	-15	-15
Other interest expenses	15	13
Interest on provisions	12	7
Interest on defined benefit pensions	2	3
Finance expenses	135	123

For the effective rate of interest on assets under construction reference is made to note 4.1.

3.4 Income Tax

The major components of income tax expense are:

Consolidated income statement (EUR million)	2014	2013
<i>Current income tax:</i>		
Current income tax charge	191	147
<i>Deferred tax:</i>		
Relating to origination and reversal of temporary differences	41	43
Income tax expense reported in the income statement	232	190

Consolidated statement of comprehensive income (EUR million)	2014	2013
Effect of re-measurement of defined benefit pensions	16	-2
Other	-	-
Income tax charged directly to other comprehensive income	16	-2

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

(EUR million)	2014	2013
Accounting profit before income tax	836	694
At statutory income tax rate of 25% (2013: 25%)	209	174
Deferred and current tax differences	6	7
Non-deductible interest	4	2
Deductible interest (Sonderbetriebsausgaben)	-6	-
Non-deductible/taxable under participation exemption	-5	-12
Non-deductible under German regime ("Vororganschaftliche Mehr- und Minderabführungen")	-	5
Effect of higher tax rate in Germany	24	14
At the effective income tax rate of 28% (2013: 27%)	232	190

Deferred tax relate to the following:

(EUR million)	Statement of financial position		Statement of income	
	2014	2013	2014	2013
Auction receipts	-234	-215	19	56
Investment contributions	-74	-71	2	-3
Tariffs to be settled	-84	-31	54	9
Accelerated depreciation for tax purposes	-240	-206	37	-2
Provisions recognised for tax purposes	127	50	-61	-20
Hedging reserve	-2	-1	1	1
Receivables and payables	-2	-1	1	-
Other	20	7	-12	2
Deferred tax expense/(income)			41	43
Net deferred tax assets/(liabilities)	-489	-468		

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

(EUR million)	2014	2013
Deferred tax assets	8	-
Deferred tax liabilities	-497	-468
Deferred tax, net	-489	-468

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

(EUR million)	2014	2013
At 1 January	-468	-414
Tax expense during the period recognised in statement of income	-41	-43
Tax income during the period recognised in other comprehensive income	16	-2
Reclassification to current liabilities	1	-6
Reclassification from/to assets and liabilities held for sale	3	-3
At 31 December	-489	-468

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.

3.5 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 table reflects the income and share data used in the net income and basic and diluted earnings per share computations:

(EUR million)	2014	2013
Profit for the year attributable to ordinary shareholder of the company	541	426
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	516	401
Weighted average number of ordinary shares in issue (in thousands)	200	200

4. Notes to the consolidated statement of financial position

4.1 Tangible fixed assets

(EUR million)	High-voltage substations	High-voltage connections	Other assets	Assets under construction	Total
Cost					
At 1 January 2013	2,381	2,272	298	3,068	8,019
Additions	68	59	11	1,730	1,868
Transfers	50	212	43	-305	-
Transfer to intangible assets	-	-	-	-14	-14
Transfer from assets held for sale	-	-	4	-	4
Disposals	-31	-14	-2	-	-47
At 31 December 2013	2,468	2,529	354	4,479	9,830
Additions	384	249	102	1,561	2,296
Transfers	1,175	891	62	-2,128	-
Transfer to intangible assets	-	-	-	-24	-24
Transfer to assets held for sale (note 4.7)	5	-	-4	-	1
Disposals	-31	-7	-7	-	-45
At 31 December 2014	4,001	3,662	507	3,888	12,058
Depreciation and impairment					
At 1 January 2013	636	559	92	-	1,287
Depreciation for the year	103	100	18	-	221
Transfer	-20	20	-	-	-
Transfer from assets held for sale	-	-	2	-	2
Disposals	-29	-11	-	-	-40
At 31 December 2013	690	668	112	-	1,470
Depreciation for the year	136	130	26	-	292
Transfer to assets held for sale (note 4.7)	2	-	-3	-	-1
Disposals	-29	-6	-7	6	-36
At 31 December 2014	799	792	128	6	1,725
Net book value:					
At 1 January 2013	1,745	1,713	206	3,068	6,732
At 31 December 2013	1,778	1,861	242	4,479	8,360
At 31 December 2014	3,202	2,870	379	3,882	10,333

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 5 million is included relating to offices that are currently not in use.

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Capitalised borrowing costs

The amount of borrowing costs capitalised during the year ended 31 December 2014 was EUR 15 million (2013: EUR 15 million). The effective interest rate used to determine the amount of borrowing costs eligible for capitalisation was 3.8% (2013: 3.8%).

Contractual capital commitments

Reference is made to note 5.2

4.2 Intangible assets

(EUR million)	Goodwill	Software	Customer contracts	Other intangible assets	Intangible assets under construction	Total
Cost						
At 1 January 2013	26	100	64	17	1	208
Additions	-	3	-	-	-	3
Transfers	-	14	-	-	-14	-
Transfer from assets held for sale	13	-	-	20	-	33
Transfer from tangible fixed assets	-	-	-	-	14	14
At 31 December 2013	39	117	64	37	1	258
Additions	-	4	-	-	2	6
Initial recognition of acquired companies	1	-	-	4	-	5
Transfers	-	23	-	1	-24	-
Transfer from tangible fixed assets	-	-	-	-	24	24
Transfer to assets held for sale (note 4.7)	-13	-	-	-20	-	-33
At 31 December 2014	27	144	64	22	3	260
Depreciation and impairment						
At 1 January 2013	-	68	18	5	-	91
Amortisation for the year	-	19	5	2	-	26
Transfer from assets held for sale	2	-	-	9	-	11
At 31 December 2013	2	87	23	16	-	128
Amortisation for the year	-	21	5	1	-	27
Transfer to assets held for sale (note 4.7)	-2	-	-	-11	-	-13
At 31 December 2014	-	108	28	6	-	142
Net book value:						
At 1 January 2013	26	32	46	12	1	117
At 31 December 2013	37	30	41	21	1	130
At 31 December 2014	27	36	36	16	3	118

Impairment testing of goodwill

As at 31 December 2014 goodwill was allocated to Cash Generating Units (CGUs), which are also operating and reportable segments for impairment testing: TSO Netherlands (EUR 3 million), TSO Germany (EUR 20 million) and non-regulated companies (EUR 4 million).

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The recoverable amount of the TSO Germany CGU has been determined based on a value in use calculation using cash flow projections from the Group's internal business plan. The pre-tax discount rate applied to cash flow projections was 6.1% (2013: 6.6%) and cash flows beyond the three-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.

4.3 Investments in joint ventures

The Group has, directly or indirectly, 50% equity stakes in BritNed Development Ltd., 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. (legal seat: Arnhem, the Netherlands) 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)	2014			2013		
	BritNed	Other	Total	BritNed	Other	Total
Non-current assets	494	33	527	495	20	515
Cash and cash equivalents	43	7	50	48	6	54
All other current assets	19	3	22	17	2	19
Non-current liabilities	6	8	14	4	9	13
Current liabilities	32	9	41	5	12	17
Equity	518	26	544	551	7	558
<i>Ownership TenneT</i>	<i>50%</i>	<i>50%</i>		<i>50%</i>	<i>50%</i>	
Carrying amount of the investment	259	13	272	276	4	280

Statement of income (EUR million)	2014			2013		
	BritNed	Other	Total	BritNed	Other	Total
Revenue	116	5	121	70	5	75
Depreciation and amortisation	16	1	17	16	1	17
Other costs	17	3	20	16	3	19
Operating profit	83	1	84	38	1	39
Finance income and expense	1	-	1	-1	-	-1
Income tax expense	-21	-1	-22	-10	-1	-11
Profit for the year	63	-	63	27	-	27
<i>Ownership TenneT</i>	<i>50%</i>	<i>50%</i>		<i>50%</i>	<i>50%</i>	
Group's share in profit	32	-	32	14	-	14

BritNed has contingent liabilities of EUR 1 million (2013: EUR 1 million). The other joint ventures have contingent liabilities of EUR 6 million (2013: EUR 2 million), relating to Relined B.V. (EUR 2 million) and DC Nordseekabel GmbH & Co. KG (EUR 4 million).

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The Group's joint ventures cannot distribute their profits until they obtain consent from all shareholders or partners. In 2014 TenneT received EUR 48 million dividend from BritNed (2013: EUR 20 million).

4.4 Investments in associates

Investments in associates substantially 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 three immaterial investments in Energie Data Services Nederland (EDSN) B.V., European Market Coupling Company GmbH (EMCC) and TSCNET Services GmbH (TSC).

HGRT, a holding company, is legally seated in Paris, France. At 31 December 2014 HGRT holds 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)	2014			2013		
	HGRT	OTC	Total	HGRT	OTC	Total
Non-current assets	51	124	175	49	127	176
Current assets	2	38	40	1	6	7
Other non-current liabilities	-	158	158	-	102	102
Current liabilities	-	5	5	-	9	9
Equity	53	-1	52	50	22	72
<i>Ownership TenneT</i>	<i>24.5%</i>	<i>25%</i>		<i>24.5%</i>	<i>25%</i>	
Carrying amount of the investment	13	-	13	12	6	18

Statement of income (EUR million)	2014			2013		
	HGRT	OTC	Total	HGRT	OTC	Total
Revenue	-	22	22	-	20	20
Depreciation and amortisation	-	6	6	-	6	6
Other costs	-	11	11	-	5	5
Operating profit	-	5	5	-	9	9
Finance income and (expense)	1	-7	-6	1	-6	-5
Income tax (expense)	-	1	1	-	-1	-1
Profit for the year	1	-1	-	1	2	3
<i>Ownership TenneT</i>	<i>24.5%</i>	<i>25%</i>		<i>24.5%</i>	<i>25%</i>	
Group's share in profit	-	-	-	-	1	1

During 2014 the Group received EUR 5 million from a capital reduction of OTC. TenneT did not receive dividends from any of its associates (2013: nil). OTC had EUR 5 million of contingent liabilities as at 31 December 2014 (2013: EUR 5 million).

4.5 Account- and other receivables

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

(EUR million)	2014	2013
Amounts to be invoiced to EEG trade debtors	855	796
EEG trade receivables	118	73
Trade receivables	130	103
Receivables in connection with energy exchanges	-	188
Amounts to be invoiced	626	457
VAT receivables	61	78
Interest receivable	4	4
Other	140	150
Total	1,934	1,849

EEG trade debtors and receivables

In accordance with relevant EEG legislation, each year the four German TSOs calculate the EEG levy for the next year. This levy covers all expected costs, including a 10% liquidity buffer, which are associated with the EEG mechanism. The levy has to be collected from end users and paid through energy suppliers. If EEG receivables are not paid by the energy suppliers or the EEG levy turns out to be too low, the relating shortfall is taken into account in the calculation of the subsequent EEG levy. 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 as substantially all potential losses are expected to be compensated in future tariffs. As at 31 December 2014, receivables with an initial value of EUR 28 million (2013: EUR 16 million) were impaired and fully provided for. The movement in the provision for impairment of receivables is as follows:

(EUR million)	2014	2013
At 1 January	21	4
Charge for the year	22	17
Utilised	-12	-
Unused amounts reversed	-3	-
At 31 December	28	21

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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
2014	130	45	14	6	65
2013	103	21	32	6	44

Further reference is made to note 4.9.6 for a description on how the Group analyses and manages credit risk.

Receivables in connection with energy exchanges

Receivables in connection with energy exchanges all relate to APX. As at 31 December 2014, these receivables are classified as assets held for sale.

Amounts to be invoiced

The majority of the amounts to be invoiced relate to unbilled grid fees and recharged offshore costs in Germany.

4.6 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)	2014			2013		
	At free disposal	Not at free disposal	Total	At free disposal	Not at free disposal	Total
Collateral securities	-	38	38	-	423	423
Short-term bank deposits	-	-	-	-	-	-
Cash at bank	83	1	84	120	7	127
Cash and cash equivalents	83	39	122	120	430	550
Bank overdrafts	-	-	-	-4	-	-4
Cash and cash equivalents included in assets as held for sale	-	295	295	-	-	-
Total cash and cash equivalents used in cash flow statement	83	334	417	116	430	546

In 2013 collateral securities mainly included securities held by APX (EUR 386 million) in connection with the margining requirements for energy transactions. As at 31 December 2014, these securities held by APX are 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 4.9.3.

4.7 Assets and liabilities of disposal group classified as held for sale

Assets and liabilities classified as held for sale entirely relate to APX Holding B.V. and its subsidiaries (APX). The Group currently holds a 71% interest in APX. Management and the shareholders of APX are exploring strategic partnerships which could result in a new business combination and a decrease of TenneT's share in APX, effectively resulting in a loss of control by TenneT.

APX is included in the 'non-regulated companies' segment (note 2) and is not considered as a major business line of the Group. Condensed statements of financial position and income of APX are disclosed in note 4.8.3.

The fair value less costs to sell exceeds the carrying amount of APX and the Group expects to realise the sale of APX in the course of 2015.

4.8 Equity

4.8.1 Capital management

The Group's capital reflects total equity, as such it includes equity attributable to ordinary shares, hybrid securities and non-controlling interests. Capital management is aimed to safeguard the Group's ability to continue as a going concern while providing an adequate return for its shareholder. Capital management is based on 'underlying' financial information (note 2).

In order to maintain or adjust the capital structure, the Group may seek additional capital (e.g. through a capital contribution 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 adequacy on the basis of the funds from operations to net debt ratio.

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 2).

The funds from operations to net debt ratio as per 31 December 2014 was 18.0%.

During 2014 an updated Treasury statute was adopted. No changes were made in the objectives, policies and processes for capital management.

4.8.2 Equity attributable to owners of the company

Paid-up and called-up capital

The company's authorised share capital amounts to EUR 500 million (2013: 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 2014 an amount of EUR nil million is included in hedging reserve for the 2015 FSIRS (2013: EUR -2 million), EUR -4 million for the 2020 FSIRS (2013: EUR -7 million) and EUR 8 million for the 2021 FSIRS (2013: EUR 14 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').

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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 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 2014 the unpaid cumulative dividend amounts to EUR 19 million (2013: EUR 19 million), relating to the period 1 June until 31 December.

Dividend distribution

In 2014 TenneT distributed a EUR 98.4 million common dividend (EUR 492 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 the latter distribution was EUR 8 million.

The appropriation of the 2014 profit is at the free disposal of the General Meeting of Shareholders.

4.8.3 Non-controlling interests

The proportion of economic interests held by non-controlling interests in the Group's subsidiaries is as follows:

(EUR million)	Country	2014	2013
TenneT Offshore 2. Beteiligungsgesellschaft mbH ("TO2")	Germany	69%	69%
TenneT Offshore 8. Beteiligungsgesellschaft mbH ("TO8")	Germany	63%	63%
TenneT Offshore DolWin3 Beteiligungs GmbH & Co. KG ("TOD3")	Germany	78%	-
TenneT Offshore DolWin3 Verwaltungs GmbH ("TODV")	Germany	78%	-
APX Holding B.V.	Netherlands	29%	29%

The Group has the power to control TO2, TO8, TOD3 and TODV holds 51% of the voting rights in these entities.

At 30 April 2014 TenneT sold a 49% voting interest in TODV and TOD3 to Copenhagen Infrastructure Partners (CIP) for an amount of EUR 366 million. In addition to the 49% voting interest, CIP obtained a 67% economic interest in the adjusted (for certain regulatory effects) profits of these companies and a 99.9% economic interest in the remainder equity of TOD3 at 30 April 2014. As a result of capital contributions in TOD3 by both the Group (EUR 92 million) and CIP (EUR 6 million) during 2014, CIP's economic interest in TOD3's equity decreased to 78% as at 31 December 2014. In the subsequent years CIP's economic interest in TOD3's equity will further decrease to 67% as a result of capital contributions to be made by the Group to TOD3. The total effect of the sale on TenneT's equity attributable to the equity holders of the company amounts to EUR -2 million, which includes EUR 3 million transaction costs.

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

(EUR million)	TO2	TO8	TOD3	TODV	APX	Total
At 1 January 2013	200	-	-	-	20	220
Profit attributable to non-controlling interests	47	31	-	-	-	78
Sale of subsidiary	-	-	-	-	-12	-12
Sale to non-controlling interest	-	23	-	-	-	23
Capital contribution	-	92	-	-	-	92
At 31 December 2013	247	146	-	-	8	401
Profit attributable to non-controlling interests	17	31	13	-	2	63
Dividends paid	-35	-	-	-	-2	-37
Sale to non-controlling interest	-	-	366	-	-	366
Capital contribution	-	53	6	-	-	59
At 31 December 2014	229	230	385	-	8	852

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)	2014				
	TO2	TO8	TOD3	TODV	APX
Non-current assets	1,114	1,331	689	-	25
Current assets	173	94	38	-	494
Non-current liabilities	772	929	97	-	3
Current liabilities	183	131	135	-	487
Equity	332	365	495	-	29
Attributable to owners of the parent	103	135	110	-	21
Attributable to non-controlling interests	229	230	385	-	8

Statement of financial position (EUR million)	2013		
	TO2	TO8	APX
Non-current assets	970	913	21
Current assets	189	198	592
Non-current liabilities	637	688	3
Current liabilities	164	191	582
Equity	358	232	28
Attributable to owners of the parent	111	86	20
Attributable to non-controlling interests	247	146	8

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Statement of income (EUR million)	2014				
	TO2	TO8	TOD3	TODV	APX
Revenue	159	118	58	-	27
Depreciation and amortisation	40	1	-	-	3
Other costs	57	18	2	-	19
Operating profit	62	99	56	-	5
Finance income and (expense)	-24	-30	-3	-	-
Income tax (expense)	-12	-20	-6	-	-1
Profit for the year	26	49	47	-	4
Other comprehensive income	-	-	-	-	-
Total comprehensive income	26	49	47	-	4
Attributable to non-controlling interests	17	31	13	-	2
Dividends paid to non-controlling interests	35	-	-	-	2

Statement of income (EUR million)	2013		
	TO2	TO8	APX
Revenue	156	92	27
Depreciation and amortisation	25	-	6
Other costs	15	2	20
Operating profit	116	90	1
Finance income and (expense)	-20	-15	-
Income tax (expense)	-30	-22	-
Profit for the year	66	53	1
Other comprehensive income	-	-	-
Total comprehensive income	66	53	1
Attributable to non-controlling interests	47	31	-
Dividends paid to non-controlling interests	-	-	-

(EUR million)	2014				
	TO2	TO8	TOD3	TODV	APX
Net cash flows from operating activities	258	424	29	-	-98
Net cash flows used in investing activities	-184	-477	-330	-	2
Net cash flows from financing activities	-74	53	301	-	-5
Change in cash and cash equivalents	-	-	-	-	-101

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(EUR million)	2013		
	TO2	TO8	APX
Net cash flows from operating activities	113	262	5
Net cash flows used in investing activities	-94	-383	-2
Net cash flows from financing activities	-19	121	-
Change in cash and cash equivalents	-	-	3

4.9 Financial assets and liabilities

4.9.1 Other non-current financial assets

Other financial assets can be broken down as follows:

(EUR million)	2014	2013
Receivables from other TSOs	96	-
Receivables from related parties	9	8
Fees for credit facilities available	7	4
Pension asset (note 4.11)	-	1
Other	4	4
Total	116	17

The receivable from related parties mainly consists of loans granted to MRNV, a 100% participation of TenneT's associate OTC (refer to note 4.4). The majority of the receivables from other TSOs relate to costs charged in relation to connecting offshore wind farms in Germany.

4.9.2 Current financial assets

Current financial assets can be broken down as follows:

(EUR million)	2014	2013
Deposits	12	51
Current part other financial assets	2	2
Financial assets through profit or loss	1	-
Total	15	53

The fair value of deposits amounted to EUR 12 million (2013: EUR 51 million), with an average effective interest rate of 0.4% (2013: 0.4%). 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 2014 and 2013, respectively.

4.9.3 Borrowings

Borrowings can be broken down as follows:

(EUR million)	Effective Interest rate	Maturity	Redemption schedule	2014	2013
Non-current interest-bearing borrowings					
3.25% Bond 2010-2015 EUR 500 million	3.3%	Feb-15	At maturity	-	499
3.88% Bond 2011-2018 EUR 500 million	3.9%	Feb-18	At maturity	513	519
2.13% Bond 2013-2020 EUR 500 million	2.2%	Nov-20	At maturity	497	497
4.50% Bond 2010-2022 EUR 500 million	4.5%	Feb-22	At maturity	497	496
4.63% Bond 2011-2023 EUR 500 million	4.6%	Feb-23	At maturity	497	497
4.75% Bond 2010-2030 EUR 200 million	4.8%	Jun-30	At maturity	195	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%	2015-2023	Linear	86	97
4.71% Loan 2010-2022 EUR 40 million	4.7%	2015-2022	Linear	22	25
4.40% Loan 2010-2021 EUR 40 million	4.4%	2015-2021	Linear	20	23
Total non-current interest-bearing borrowings				2,627	3,147
Current interest-bearing borrowings					
3.25% Bond 2010-2015 EUR 500 million	3.3%	Feb-15	At maturity	500	-
Cash loans	0.5%	Oct-14	At maturity	-	50
EUR Commercial papers	0.1%	Feb-15	At maturity	140	-
USD Commercial papers	0.3%	Mar-15	At maturity	41	-
4.44% Loan 2010-2023 EUR 140 million	4.4%	Nov-15	At maturity	11	11
4.71% Loan 2010-2022 EUR 40 million	4.7%	Nov-15	At maturity	3	3
4.40% Loan 2010-2021 EUR 40 million	4.4%	May-15	At maturity	3	3
Total current interest-bearing borrowings				698	67

4.9.4 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 decrease in 2014 compared to 2013 relates to collateral securities provided by third parties to APX. As at 31 December 2014 this balance is included in the assets and liabilities classified as held for sale.

4.9.5 Fair values

As at 31 December 2014, the Group did not hold any instruments that are carried at fair value.

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).

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

(EUR million)	Notes	Carrying amount		Fair value		Hierarchy
		2014	2013	2014	2013	
Financial assets						
Financial assets at fair value through profit or loss	4.9.2	1	-	1	-	Level 2
Financial Liabilities						
<i>Borrowings:</i>						
- Borrowings – bonds	4.9.3	2,699	2,702	3,103	2,924	Level 1
- Borrowings – other	4.9.3	626	512	698	551	Level 2
		3,325	3,214	3,801	3,475	

The fair values of the level 2 borrowings are based on discounted cash flows. Financial assets at fair value through profit or loss reflect a USD-EUR foreign-exchange swap. A change in the assumptions used for calculation the fair values will not result in significant different outcome. There have been no transfers between the fair value hierarchy levels.

4.9.6 Financial risk management

General

The Group's financial assets derive directly from the operational activities and include loans, (short-term) deposits, account- and other receivables and 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 risk, interest rate risk, credit risk and liquidity risk. 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. 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.

Similar to the Group's capital management, 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. During 2014 an updated Treasury statute was adopted. No changes were made in the objectives, policies and processes for financial risk management.

Market risk

Market risk includes commodity price risk and 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.

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.

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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.

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 balance 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 balance 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.

Interest rate risk

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 current regulatory period (2014-2016). In Germany, the actual rate of interest is compensated up to a predefined maximum on a rolling average 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. Currently the long term loan portfolio is fully based on fixed interest rates, as such interest rate risk is very limited. An increase or decrease in interest rates of 2 percentage points would create an increase or decrease of EUR 2 million in the net Group's interest costs (2013: EUR 1 million) relating to short term loans.

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. In accordance with relevant EEG legislation, each year the four German TSOs calculate the EEG levy for the next year. This levy covers all expected costs, including a 10% liquidity buffer, which are associated with the EEG mechanism. The levy has to be collected from end users and paid through energy suppliers. If EEG receivables are not paid by the energy suppliers or the EEG levy turns out to be too low, the relating shortfall is taken into account in the calculation of the subsequent EEG levy. As a result, there is no credit risk on the side of TenneT TSO GmbH regarding EEG receivables.

Credit risks also arise from TenneT's transactions and positions with financial institutions. As at 31 December 2014, the maximum credit risk amounted to EUR 83 million (2013: EUR 120 million). The maximum exposure decreased in 2014 due to an decrease in cash at bank accounts compared to 2013.

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 2014 the Group had deposited EUR 12 million with third parties (2013: EUR 51 million).

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, investments in fixed assets and dividend payments over the succeeding 12 months. This requirement was met throughout 2014 and 2013.

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 2014							
Borrowings	4.9.3	3	764	49	949	2,366	4,131
Account- and other payables	4.12	1,576	361	1,580	-	-	3,517
Other financial liabilities	4.9.4	38	-	-	-	-	38
		1,617	1,125	1,629	949	2,366	7,686
As at 31 December 2013							
Borrowings	4.9.3	3	83	100	1,488	2,463	4,137
Account- and other payables	4.12	1,152	273	1,319	-	-	2,744
Other financial liabilities	4.9.4	408	-	-	15	-	423
		1,563	356	1,419	1,503	2,463	7,304

In order to minimise its exposure to liquidity risk, TenneT has committed and uncommitted credit facilities at its disposal to accommodate any fluctuations. The size of these credit facilities is such that substantially all adverse financial developments and events can reasonably be expected to 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 interest over any assets of the Group has been provided. These facilities all have floating-rate interest conditions.

TenneT has a EUR 2,200 million committed revolving credit facility at its disposal for several corporate purposes. As at 31 December 2014 this facility was undrawn. This committed revolving credit facility has July 2019 maturity. Furthermore TenneT has obtained EUR 800 million of undrawn long term loan commitments from the European Investment Bank ("EIB"). These EIB facilities consist of three agreements: EUR 500 million (signed December 2013), EUR 150 million (signed July 2013) and EUR 150 million (signed October 2014).

In addition, TenneT has short-term uncommitted credit facilities in a total amount of EUR 375 million. The terms and conditions of these credit facilities include negative pledge and pari passu clauses. No security interest over any assets of the Group has been provided. The facilities all have floating-rate interest conditions. At 31 December 2014, no amounts (2013: nil) have been drawn from these facilities.

TenneT expects to meet obligations for 2015 with (i) cash and cash equivalents, (ii) funds from operations (iii) unused credit facilities and (iv) capital market transactions. TenneT expects to meet financial obligations for the years thereafter through various capital market transactions and intends to manage future refinancing risk by spreading the tenors of new financing arrangements.

TenneT had diversified funding sources by means of its EUR 8 billion EMTN programme and its EUR 2.2 billion CP programme. Both programmes significantly reduce the company's dependency on the banking sector.

4.10 Deferred income

Deferred income can be broken down as follows:

(EUR million)	2014	2013
Investment contributions	191	201
Service contracts	5	6
Other	20	25
Total	216	232

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 (2013: EUR 5 million) and is presented separately in the statement of financial position.

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.

4.11 Provisions

Provisions can be broken down as follows:

(EUR million)	2014			2013		
	Current	Non-current	Total	Current	Non-current	Total
Environmental and decommissioning	7	356	363	9	145	154
Tariffs related	191	10	201	207	22	229
Personnel	1	11	12	-	10	10
Other	40	184	224	1	159	160
	239	561	800	217	336	553
Defined benefit pensions	1	125	126	-	69	69
Total provisions	240	686	926	217	405	622

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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 2013	70	313	9	50	442
Addition	95	16	1	121	233
Utilisation	-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
Addition	214	49	2	62	327
Utilisation	-8	-74	-	-2	-84
Unused amounts reversed	-4	-4	-	-	-8
Imputed interest and discount rate adjustment	7	1	-	4	12
At 31 December 2014	363	201	12	224	800

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. In 2014 the additions to this provision include EUR 196 million of estimated future decommissioning costs for projects constructed during 2014. Consequently, these additions were not recognised through the statement of income.

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 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 electricity usage of the relevant 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%.

Other provisions

The majority of the other provisions relate to legal claims and to risks associated with delays and interruptions in connection with the Group's offshore activities in Germany. In Germany, TenneT is responsible for establishing certain offshore grid connections from offshore wind farms (OWFs) to the nearest technologically and economically feasible onshore (electricity grid) connection point. Due to, among others, lack of supplier resources necessary for the construction of offshore grid connection system, weather conditions and application of new technologies, the timely realisation of offshore grid connection system and, thus, the grid connection of certain OWFs are subject to delays and interruptions.

Certain developers of OWFs which have been granted an unconditional grid connection commitment in the past by TenneT are pursuing legal proceedings against the company.

Defined benefit pensions

The Group has defined benefit plans for the majority of its 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.

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') as well as individual pension commitments.

The assets of these plans are mainly held and administrated by the institutions Helaba Pension Trust e.V., Frankfurt (Helaba) and Versorgungskasse Energie VVaG (VKE). According to German Law TenneT remains liable for fulfilling the pension obligations in case these institutions do not meet their obligations. This contingent liability is limited to the cumulative contributions paid. Furthermore, in case these institutions are not able to meet their obligations the German protection fund for insurance companies will step in first. If, in a highly remote situation, this protection fund is not able to step in, then TenneT is required to fulfil the pension obligations.

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.

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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 differences between the plans are limited and therefore disclosure is grouped in the notes below based on weighted averages. One of the plans administrated by VKE was overfunded in 2013 and resulted in a net pension asset. The IFRIC 14 asset ceiling test revealed that this asset could be recognized as a separate asset and was therefore presented in the other financial assets (note 4.9.1) in the statement of financial position.

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

(EUR million)	2014	2013
Current service cost (note 3.2.2)	8	7
Net interest costs (note 3.3)	2	3
Net benefit expense	10	10

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

(EUR million)	2014	2013
Defined benefit obligation	206	139
Fair value of plan assets	-80	-71
Funded status	126	68
Benefit asset included in other financial assets (note 4.9.1)	-	1
Benefit liability	126	69

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

(EUR million)	2014	2013
Defined benefit obligation at 1 January	139	136
Current service cost	8	7
Interest cost	5	5
Benefits paid	-	-
Re-measurements on obligation	54	-9
Defined benefit obligation at 31 December	206	139

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

(EUR million)	2014	2013
Fair value of plan assets at 1 January	71	68
Actual return on plan assets	3	-
Contributions by employer	6	3
Benefits paid	-	-
Fair value of plan assets at 31 December	80	71

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

	2014	2013
Quoted in active markets:		
Equity instruments	4.5%	4.0%
Debt securities	22.3%	19.8%
Investment funds	56.0%	61.6%
Other	2.4%	2.5%
Unquoted investments:		
Equities	0.8%	0.7%
Debt securities	1.7%	1.5%
Real estate	4.5%	5.0%
Investment funds	2.4%	0.0%
Other	1.5%	1.3%
Cash	3.9%	3.6%

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)	2014	2013
Accumulated balance as at 1 January	44	51
Re-measurements during the year	54	-7
Accumulated re-measurements at 31 December	98	44

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

	2014	2013
Discount rate	2.30%	3.70%
Inflation rate	2.00%	2.00%
Future salary increases	2.50%	2.50%
Future pension increases	2.00%	2.00%

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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 discount rate	-11	12
0.25% change of salary increase rate	2	-2
0.25% change of pension increase rate	-	-
10% change in mortality rate	-5	5

The Group expects to contribute EUR 2 million to its defined benefit pension plans in 2015 and expects the following, undiscounted, benefit payments from the plan:

(EUR million)	2014	2013
Within the next 12 months	1	1
Within 2 and 5 years	11	9
Within 5 and 10 years	25	24
Beyond 10 years	597	557
Total	634	591

In addition to contributions to its defined benefit pension plans, in 2015 the Group expects to contribute EUR 18 million to the multi-employer scheme administered by the ABP Pension Fund in the Netherlands. In 2008 the funding ratio in of the ABP pension fund deteriorated, consequently ABP introduced a recovery plan in 2009. In accordance with this recovery plan ABP evaluates the progress of the recovery at the start of each year. Progress is measured by means of the actual funding ratio at the end of the preceding year. ABP's funding ratio as at 31 December 2014 was 101.1% (2013: 105.9%).

4.12 Account- and other payables

Account- and other payables can be broken down as follows:

(EUR million)	2014	2013
Accounts payable	134	81
Payables in connection with tangible fixed assets purchases	655	735
EEG accounts payable	1,898	925
Grid expenses payable	667	618
Payables in connection with energy exchanges	-	188
Interest payable	84	84
Social securities and other taxes payable	9	14
Payables to related parties	1	8
Other payables	153	175
Total	3,601	2,828

The EEG accounts payable increased as a result of an increased EEG levy. The new EEG levy includes a liquidity buffer for the TSOs, giving rise to a net liability position for the Group.

For a description of the Group's financial risk management, reference is made to note 4.9.6.

5. Other disclosures

5.1 Business combinations

At 1 April 2014 the Group, through its subsidiary Novec B.V., acquired 100% of the shares of WL Winet B.V., a company that is specialized in the construction of telecom networks, for a cash consideration of EUR 6 million and a deferred payment of EUR 1 million.

The fair values of the identifiable assets and liabilities at the date of the acquisition were as follows:

(EUR million)	2014
Assets	
Intangible assets	4
Inventories	1
Account- and other receivables	3
Liabilities	
Account- and other payables	-1
Other liabilities	-1
Net Assets	6
Goodwill arising on acquisition	1
Purchase consideration transferred	7

The intangible assets comprise customer contracts and client relationships. From the date of acquisition until 31 December 2014 WL Winet contributed EUR 7 million of revenue and EUR 2 million to operating profit. The effect on revenue and operating profit if the combination had taken place at the beginning of the year is considered as not material within the context of the Group's consolidated financial statements.

5.2 Commitments and contingencies

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

(EUR million)	2014	2013
Off-balance sheet commitments		
Comfort letters issued	44	193
Capital commitments	3,272	2,978
Grid related commitments	1,153	1,089
Guarantees issued	2,170	1,477
Operating lease commitments	181	103
Other off-balance sheet commitments	6	78
Total off-balance sheet obligations	6,826	5,918
Off-balance sheet rights		
Comfort letters received	106	55
Bank guarantees received	4,304	3,487
Government guarantees received	300	300
Other off-balance sheet rights	71	58
Total off-balance sheet rights	4,781	3,900

5.2.1 Off-balance sheet commitments

Comfort letters issued

TenneT has issued comfort letters for the (long-term) financial obligations of TenneT Offshore companies to several external parties. 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. Comfort letters issued for which also capital commitments have been entered into (EUR 4,113 million) are not included in the table above; these commitments are either fulfilled by actual purchases or are included as part of the 'capital commitments'. In addition, comfort letters issued for matters for which provisions have been recognised in the statement of financial position (EUR 79 million) are also excluded from the table above.

Capital commitments

The capital commitments relate to commitments entered into with regard to the purchase of tangible fixed assets. Approximately EUR 1,222 million of capital commitments are payable within the next 12 months.

Grid related commitments

Grid related commitments include the unused auction receipts in the Netherlands amounting to EUR 721 million (2013: EUR 664 million). TenneT sells transport capacity through auctions. In the Netherlands the received cash is restricted and must in principle be used to finance future investments in interconnectors.

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 1,025 million and EUR 1,108 million, respectively.

Operating lease commitments

The Group has entered into operating lease commitments for certain office buildings and vehicles. In 2014 the operating lease expenses amounted EUR 16 million. Future minimum lease payables under non-cancellable operating leases are as follows:

(EUR million)	2014	2013
Within the next 12 months	18	14
Between 2 and 5 years	50	33
Beyond 5 years	113	56
Total	181	103

Other

TenneT received claims from customers. A portion of these claims relates to refunds of transmission services, which TenneT believes are unlikely to prevail in court. In addition, the Group has various other off-balance commitments and contingencies, which are not sufficiently large to warrant separate disclosure.

5.2.2 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.

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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 Germany.

Government guarantees received

A written put option – with an exercise price of EUR 375 million and an original term of 10 years until February 2020 – 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.

Other

The Group has various other off-balance sheet rights, which are not sufficiently large to warrant separate disclosure.

5.2.3 Assets not at free disposal

TenneT's consolidated assets contain EUR 1,503 million (2013: EUR 1,539 million) of assets not at the Group's free disposal. These assets comprise receivables relating to the EEG, assets of APX (classified as held for sale) and cash balances not at free disposal.

5.3 Related parties

An overview of legal entities that are included in the consolidated financial statements is included in note 5.4.

TenneT has the following related parties:

State of the Netherlands

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 4.9.1.

No material transactions with related parties, other than already disclosed, have taken place in 2014. 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. Mr. Kroon was not involved in the negotiations and neither in the decision making process in respect of this lease agreement.

Ms. Hottenhuis is a member of the Executive Board of ARCADIS N.V. ARCADIS is a supplier to TenneT. 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.

Port of Rotterdam and ARCADIS are not considered related parties.

5.4 Consolidated subsidiaries

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

Subsidiary	Legal Seat	Country	Voting interest		Economic interest		
			2014	2013	2014	2013	
APX Balancing B.V.	Amsterdam	Netherlands	71%	71%	71%	71%	
APX Clearing B.V.	Amsterdam	Netherlands	71%	71%	71%	71%	
APX Holding B.V.	Amsterdam	Netherlands	71%	71%	71%	71%	
APX Power B.V.	Amsterdam	Netherlands	71%	71%	71%	71%	
APX Shipping B.V.	Amsterdam	Netherlands	71%	71%	71%	71%	
APX Staffing B.V.	Amsterdam	Netherlands	71%	71%	71%	71%	
B.V. Transportnet Zuid-Holland	Voorburg	Netherlands	100%	100%	100%	100%	*
CertiQ B.V.	Arnhem	Netherlands	100%	100%	100%	100%	
Duvekot Rentmeesters B.V.	Bathmen	Netherlands	100%	100%	100%	100%	
HS Netten Zeeland B.V.	Middelburg	Netherlands	100%	100%	100%	100%	*
Nadine Netwerk B.V.	Arnhem	Netherlands	100%	100%	100%	100%	*
NLink International B.V.	Arnhem	Netherlands	100%	100%	100%	100%	*
NOVEC B.V.	The Hague	Netherlands	100%	100%	100%	100%	
Omroepmasten B.V.	Vianen	Netherlands	100%	100%	100%	100%	
Saranne B.V.	Arnhem	Netherlands	100%	100%	100%	100%	*
Stichting Beheer Doelgelden Landelijk Hoogspanningsnet	Arnhem	Netherlands	100%	100%	N/A	N/A	
TenneT Blue B.V.	Arnhem	Netherlands	100%	100%	100%	100%	*
TenneT Duitsland Coöperatief U.A.	Arnhem	Netherlands	100%	100%	100%	100%	*
TenneT Orange B.V.	Arnhem	Netherlands	100%	100%	100%	100%	
TenneT TSO B.V.	Arnhem	Netherlands	100%	100%	100%	100%	
TenneT TSO Duitsland B.V.	Arnhem	Netherlands	100%	100%	100%	100%	*
TenneT TSO E B.V.	Arnhem	Netherlands	100%	100%	100%	100%	*
TransTenneT B.V.	Arnhem	Netherlands	100%	100%	100%	100%	*
WL Winet B.V.	Maasdijk	Netherlands	100%	-	100%	-	
DC Netz BorWin3 GmbH	Bayreuth	Germany	100%	100%	100%	100%	
DC Netz BorWin4 GmbH	Bayreuth	Germany	100%	100%	100%	100%	
DC Netz DolWin4 GmbH	Bayreuth	Germany	100%	100%	100%	100%	
DC Netz GmbH	Bayreuth	Germany	100%	100%	100%	100%	
DC Netz HelWin1 GmbH	Bayreuth	Germany	100%	100%	100%	100%	
DC Netz SylWin2 GmbH	Bayreuth	Germany	100%	100%	100%	100%	
TenneT GmbH & Co. KG	Bayreuth	Germany	100%	100%	100%	100%	**
TenneT Offshore 1. Beteiligungsgesellschaft mbH	Bayreuth	Germany	51%	51%	31%	31%	
TenneT Offshore 2. Beteiligungsgesellschaft mbH	Bayreuth	Germany	51%	51%	31%	31%	
TenneT Offshore 4. Beteiligungsgesellschaft mbH	Bayreuth	Germany	100%	100%	100%	100%	
TenneT Offshore 7. Beteiligungsgesellschaft mbH	Bayreuth	Germany	100%	100%	100%	100%	
TenneT Offshore 8. Beteiligungsgesellschaft mbH	Bayreuth	Germany	51%	51%	37%	37%	
TenneT Offshore 9. Beteiligungsgesellschaft mbH	Bayreuth	Germany	51%	51%	37%	37%	
TenneT Offshore Dolwin 3 Beteiligungs GmbH & Co. KG	Bayreuth	Germany	51%	100%	22%	100%	
TenneT Offshore Dolwin 3 GmbH & Co. KG	Bayreuth	Germany	51%	100%	22%	100%	**
TenneT Offshore Dolwin 3 Verwaltungs GmbH	Bayreuth	Germany	51%	100%	22%	100%	**
TenneT Offshore GmbH	Bayreuth	Germany	100%	100%	100%	100%	
TenneT TSO GmbH	Bayreuth	Germany	100%	100%	100%	100%	
TenneT Verwaltungs GmbH	Bayreuth	Germany	100%	100%	100%	100%	
APX Commodities Ltd.	Nottingham	United Kingdom	71%	71%	71%	71%	
Belpex S.A.	Brussels	Belgium	71%	71%	71%	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.

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The consolidation includes Stichting Beheer Doelgeden Landelijk Hoogspanningsnet (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.

5.5 Events after the reporting period

No significant events after the reporting period have occurred.

6. Accounting policies

6.1 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 the performance from a geographic and regulatory perspective, in which the Executive Board considers the performance of the regulated activities in the Netherlands and in Germany separately.

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.

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Reference is made to note 2.1 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.

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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 are legally required to be equal, except for certain bonus amounts payable to TSOs. Revenues are charged based on estimated costs less proceeds from the sale of electricity at the energy 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 or reimbursed to customers and recognised in the statement of financial position as a receivable or liability, respectively. TenneT receives final settlements deliveries from parties that generate renewable energy and for the invoiced revenues to the energy suppliers. Price and volume differences are recognised in the calculation of the EEG levy for the subsequent calendar year. EEG revenues and EEG expenses are presented on a net basis in the statement of income.

KWK-G (Kraft-Wärme-Kopplungs-Gesetz) revenues and expenses are legally required to be equal. Revenues are charged or reimbursed 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 receivable or liability, respectively. There are final settlements for 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.

Financial statements

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:

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Estimated useful lives tangible fixed assets	Years
Substations	
Switches and offshore converter stations	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 (subsea and 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

Financial statements

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.

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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.

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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.

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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 include cash in hand, deposits held at call with banks and other short-term highly liquid investments with remaining 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.

Financial statements

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.

Financial statements

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.

6.2 Change in accounting policies

The following new standards and amendments are effective as of 1 January 2014:

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

IAS 32 'Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32'

The amendments to IAS 32 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. This amendment did not affect TenneT's financial position, performance or disclosures since the Group did not have any offsetting arrangements.

IAS 39 'Novation of Derivates and Continuation of Hedge Accounting – Amendments to IAS 39'

The amendments to IAS 39 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 did not affect TenneT's financial position, performance or disclosures.

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.

6.3 IFRS Standards issued but not yet effective

New standards, amendments and interpretations are issued and effective on or after January 1, 2015 or later periods, and the Group has not yet early adopted them. The following upcoming standards are the most relevant to the Group:

- IFRS 9 'Financial instruments'
- IFRS 15 'Revenue from contracts with customers'

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 statement of income, unless this creates an accounting mismatch. The adoption of this new standard will have limited impact on the Group's disclosures to the financial statements, but will not affect TenneT's financial position nor performance. The effective date of this new standard is 1 January 2018.

IFRS 15, 'revenue from contracts with customers', introduces a new five-step model to be applied to revenue from contracts with customers and provides a more structured approach to measuring and recognising revenue. In accordance with this new standard revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The effective date of this new standard is 1 January 2017. The Group is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

Changes to other standards, following from amendments, interpretations and the annual improvement cycles, do not have a material impact on the Group's financial statements. As such these are not further described.

Company financial statements

Company statement of income

for the year ended 31 December (EUR million)

(EUR million)	2014	2013
Result TenneT Holding B.V. after income tax	-13	13
Profit from Group companies after income tax	554	413
Profit for the year	541	426

Company statement of financial position

for the year ended 31 December (EUR million)

Assets	Notes	2014	2013
Non-current assets			
Investments in subsidiaries	7.2	5,175	4,750
Other financial assets	7.3	4,062	3,296
		9,237	8,046
Current assets			
Other financial assets	7.3	100	89
Cash and cash equivalents		80	119
		180	208
Total assets		9,417	8,254

Equity and liabilities	Notes	2014	2013
Equity	7.4		
Paid up and called-up capital		100	100
Share premium		600	600
Hedging reserve		4	5
Reserve for exchange rate differences		-2	-2
Retained earnings		1,621	1,346
Unappropriated result		493	390
Equity attributable to ordinary shares		2,816	2,439
Hybrid securities		520	520
Equity attributable to owners of the company		3,336	2,959
Non-current liabilities			
Borrowings	7.5	2,627	3,147
Deferred tax liabilities		2	2
		2,629	3,149
Current liabilities			
Borrowings	7.5	698	67
Account- and other payables	7.6	2,754	2,079
		3,452	2,146
Total equity and liabilities		9,417	8,254

Notes to the company financial statements

7. Notes to the company financial statements

7.1 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.

7.2 Investments in subsidiaries

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

(EUR million)	2014	2013
As at 1 January	4,750	4,058
Capital contributions	-	390
Share in result	554	413
Dividends received	-89	-106
Re-measurement of defined benefit pension	-38	5
Net effect on (partial) sale/acquisition of subsidiaries	-2	-8
Other movements	-	-2
As at 31 December	5,175	4,750

Investments in subsidiaries relate to the legal entities included in the consolidation as disclosed in note 5.4 of the consolidated financial statements.

Financial statements

7.3 Other financial assets

Other financial assets can be broken down as follows:

(EUR million)	2014		2013	
	Current	Non-current	Current	Non-current
Receivables from subsidiaries	98	4,055	87	3,292
Credit facility fees	2	7	2	4
Total	100	4,062	89	3,296

The terms on the receivables are not fixed. The agreed interest rate is Euribor +0.55%. No securities have been provided.

7.4 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 4.8.2 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 86 million (2013: EUR 96 million) and a reserve for participating interest of EUR 6 million (2013: EUR 11 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.

7.5 Borrowings

The details on the borrowings are included in the consolidated financial statements, note 4.9.3. Further reference is made to this respective note.

7.6 Accounts payable and other liabilities

(EUR million)	2014	2013
Payables to subsidiaries	2,621	1,956
Interest payable	84	84
Current income tax payable	45	33
Other payables	4	6
	2,754	2,079

Financial statements

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.

7.7 Related parties

Legal entities that are included in the consolidated financial statements (note 5.4) are regarded as related parties. In addition, reference is made to note 5.3 of the consolidated financial statements.

7.8 Employees

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

Key management compensation is broken down in note 3.2.2 to the consolidated financial statements.

Arnhem, 10 March 2015

Executive Board TenneT Holding B.V.

J.M. Kroon¹
U.T.V. Keussen¹
B.G.M. Voorhorst¹
O. Jager¹
A.A. Hartman
W. Breuer

Supervisory Board TenneT Holding B.V.

A.W. Veenman
P.M. Verboom
R.G.M. Zwitserloot
S. Hottenhuis
J.L.M. Fischer

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 2014 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 5.5 of the consolidated financial statements.

Independent auditor’s report

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

Independent auditor's report

To: the General Meeting of Shareholders and the Supervisory Board of TenneT Holding B.V.

Report on the audit of the financial statements 2014

Our opinion

We have audited the accompanying financial statements 2014 of TenneT Holding B.V., based in Arnhem. The financial statements include the consolidated financial statements and the company financial statements.

In our opinion:

- the consolidated financial statements give a true and fair view of the financial position of TenneT Holding B.V. as at 31 December 2014, and of its result and its cash flows for 2014 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.
- the company financial statements give a true and fair view of the financial position of TenneT Holding B.V. as at 31 December 2014, and of its result for 2014 in accordance with Part 9 of Book 2 of the Dutch Civil Code.

The consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2014;
- the following statements for 2014: the consolidated income statement and the consolidated statements of comprehensive income, changes in equity and cash flows; and
- the 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 2014;
- the company profit and loss account for 2014; and
- the notes comprising a summary of the significant accounting policies and other explanatory information.

Basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the "Our responsibilities for the audit of the financial statements" section of our report.

We are independent of TenneT Holding B.V. in accordance with the 'Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten (ViO)' and other relevant independence regulations in the Netherlands. Furthermore, we have complied with the Verordening gedrags- en beroepsregels accountants (VGBA).

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

Materiality

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

Financial statements

Based on our professional judgement, we determined materiality for the Group financial statements as a whole (overall materiality) at € 44 million, which represents approximately 1% of the Group's equity. We have determined equity to be the most relevant measure for TenneT's primary stakeholders, being the Dutch Government (sole shareholder) and external investors in both equity and liability instruments of the group. A stable equity balance and solvency ratio is the most relevant measure for the stakeholders to make their investment decisions.

We agreed with the Supervisory Board that misstatements in excess of € 2.2 million, which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

Scope of the group audit

TenneT Holding B.V. is at the head of a group of entities. The financial information of this group is included in the consolidated financial statements of TenneT Holding B.V.

Because we are ultimately responsible for the opinion, we are also responsible for directing, supervising and performing the group audit. In this respect we have determined the nature and extent of the audit procedures to be carried out for group entities. Decisive were the size and/or the risk profile of the group entities or operations. On this basis, we selected group entities for which an audit or review had to be carried out on the complete set of financial information or specific items.

The Group is structured along three business segments being TenneT TSO Netherlands, TenneT TSO Germany and the activities falling outside these business segments, which are included in non-regulated activities. In establishing the overall approach to the Group audit, we determined the type of work that needed to be performed at the reporting units within these business segments, either by us, as the Group engagement team, or component auditors within EY Netherlands and from other EY network firms operating under our instruction. Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those reporting units to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the Group financial statements as a whole. Accordingly, we identified that the consolidated reporting units TenneT TSO Netherlands and TenneT TSO Germany, which both consist of multiple entities, required an audit of their complete financial information due to their size.

Specific audit procedures on certain balances and transactions were performed at two reporting units within the business segment non-regulated activities. These specific audit procedures were performed by a non-EY auditor. Based on the extent of reliance on the non-EY auditor, we determined the level of involvement needed to conclude whether sufficient audit evidence had been obtained as a basis for our opinion on the Group financial statements as a whole.

The procedures described above provide coverage of 99% of profit before tax and 97% of the total assets of the Group. In addition, we performed specific procedures on exceptional transactions. By performing the procedures mentioned above at group entities, together with additional procedures at group level, we have been able to obtain sufficient and appropriate audit evidence about the group's financial information to provide an opinion about the consolidated financial statements.

Our key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements. We have communicated the key audit matters to the Supervisory Board. The key audit matters are not a comprehensive reflection of all matters discussed.

Financial statements

These matters were addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Offshore related provisions and risks

TenneT TSO Germany is in various stages of the construction of offshore grid connections and related undersea cabling and landside stations to connect offshore wind farms to the onshore high voltage grid. The engineering, procurement and construction of these platforms is very complex, performed for the first time in projects of this size and the German legal framework requires TenneT TSO Germany to construct the offshore grid connections nearly simultaneously. During 2014, 11 of these connections are under construction. The liabilities resulting from delays or lost connection days, asset retirement obligations and specific and project related risks have led to the recognition of significant provision balances in the financial statements.

We obtained evidence to support management's estimates and key assumptions used in establishing the various provisions, in particular probability assumptions and agreed key metrics (primarily reimbursement amounts) back to underlying sources. We also tested the integrity of the measurement model, including the formulas applied in the model. Furthermore, we involved an EY technical expert to support us in understanding the various technological complexities. We evaluated the reasonableness of management's judgements and assumptions applied in measuring the provisions recognized on the Group's statement of financial position as well as the disclosures included in Note 4.11.

Sale of non-controlling interest to CIP

During the year, TenneT TSO Germany sold a 67% economic interest in a legal entity holding its offshore converter platform DolWin3 to the Danish infrastructure fund management company Copenhagen Infrastructure Partners (CIP), investing on behalf of Pension Danmark. The Group retained control over the entity through its majority voting interest and continues to consolidate the activities in its financial statements.

We reviewed the terms and conditions of the sale contract concluded by the Group and CIP and considered whether the financial statements appropriately reflect the substance of the transaction. The information with respect to this transaction is included in note 4.8.3 of the financial statements. We also tested whether the Group has correctly reflected the transaction in non-controlling interest in equity and in the allocation of net profit for the year.

Segment reporting (IFRS 8) reflecting TenneT's 'underlying' financial performance

The Executive Board manages and monitors its business based upon 'underlying' financial information, as explained in note 2 'Segment Information'. The underlying financial information is also used in the 'Financial Results' section of the Executive Board report. The consolidated IFRS financial statements and the underlying financial information differ with respect to the recognition of regulatory assets, regulatory liabilities and auction proceeds related to cross-border interconnection capacity. The implications are primarily that auction proceeds and over- and underachievement of regulatorily allowed revenue for a given period is presented as higher or lower revenues in IFRS reporting, but as assets or liabilities in the underlying financial information if, based on the prevailing regulatory framework, these can be recouped or are required to be returned through future grid tariffs. TenneT's Executive Board believes that underlying financial information better represents its actual business and financial performance, and therefore uses it for management reporting and analysis, as well as for internal decision-making and financial planning purposes.

Financial statements

TenneT reports 3 separate segments: TSO Netherlands, TSO Germany and non-regulated companies. The underlying financial information is reconciled to the consolidated IFRS financial statements in note 2. We have assessed whether the underlying financial information reflects how TenneT's Executive Board assesses performance and manages the business, by reference to the internal quarterly reporting and other internal financial reports and analyses. We obtained the internal quarterly reporting that the Executive Board receives and reconciled that information to the segments identified in the segment reporting. We have gained a detailed understanding of the regulatory frameworks in the Netherlands and Germany and audited the movements in the amounts in respect of the underlying regulatory assets and/or liabilities referenced above.

Responsibilities of management and the Supervisory Board for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with EU-IFRS and Part 9 of Book 2 of the Dutch Civil Code, and for the preparation of the management board report in accordance with Part 9 of Book 2 of the Dutch Civil Code. Furthermore, management is responsible for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, management is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, management should prepare the financial statements using the going concern basis of accounting unless management either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so. Management should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the financial statements.

The Supervisory Board is responsible for overseeing the company's financial reporting process.

Our responsibilities for the audit of the financial statements

Our objective is to plan and perform the audit assignment in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not have detected all errors and fraud.

We have exercised professional judgement and have maintained professional skepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements.

Our audit included e.g.:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

Financial statements

- Concluding on the appropriateness of management's use of the going concern basis of accounting, and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company ceasing to continue as a going concern.
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures; and
- Evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant findings in internal control that we identify during our audit.

We provide the Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Supervisory Board, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.

Report on other legal and regulatory requirements

Report on the Executive Board report and the other information

Pursuant to legal requirements of Part 9 of Book 2 of the Dutch Civil Code (concerning our obligation to report about the Executive Board report and other information):

- We have no deficiencies to report as a result of our examination whether the management board report, to the extent we can assess, has been prepared in accordance with Part 9 of Book 2 of the Dutch Civil Code, and whether the information as required by Part 9 of Book 2 of the Dutch Civil Code has been annexed.
- We report that the Executive Board report, to the extent we can assess, is consistent with the financial statements.

Engagement

We were appointed by the Supervisory Board as auditor of TenneT Holding B.V. on 14 March 2013, as of the audit for the year 2013 and have operated as statutory auditor ever since that date.

Zwolle, 10 March 2015

Ernst & Young Accountants LLP

Signed by A.E. Wijnsma

Assurance report of the independent auditor

To: the General Meeting of Shareholders and the Supervisory Board of TenneT Holding B.V.

We have reviewed the sustainability information in the chapters 'Profile', 'Letter from the CEO', 'Executive Board Report (excluding the section called 'Financial results')', in the Integrated Annual Report for the year 2014 (hereafter: the Report) of TenneT Holding B.V., Arnhem (hereafter: (TenneT)). The Report comprises a description of the policy, the activities, events and performance of TenneT relating to sustainable development during the reporting year 2014.

Limitations in our scope

The Report contains prospective information, such as ambitions, strategy, targets, expectations and projections. Inherent to this information is that actual future results may be different from the prospective information and therefore may be uncertain. We do not provide any assurance on the assumptions and feasibility of this prospective information.

References in the Report (to www.tennet.nl, external websites and other documents) are outside the scope of our assurance engagement. We do also not provide assurance regarding the corresponding non-financial information for the year 2012.

Management's responsibility

Management of TenneT is responsible for the preparation of the Report in accordance with the Sustainability Reporting Guidelines G4 (application level Core) of the Global Reporting Initiative (GRI), including the identification of the stakeholders and the determination of material issues, and the reporting criteria developed by TenneT. The disclosures made by management with respect to the scope of the Report and the reporting criteria are included in enclosure 'CSR reporting principles' of the Report.

Furthermore management is responsible for such internal control as it determines is necessary to enable the preparation of the Report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the Report based on our review. We conducted our review in accordance with Dutch law, including the Dutch Standard 3810N 'Assurance engagements relating to sustainability reports'. This requires that we comply with ethical requirements and that we plan and perform the review to obtain limited assurance about whether the Report is free from material misstatement.

A review is focused on obtaining limited assurance. The procedures performed in obtaining limited assurance are aimed on the plausibility of information which does not require exhaustive gathering of evidence as in engagements focused on reasonable assurance. The performed procedures consisted primarily of making inquiries of management and other within the entity, as appropriate, applying analytical procedures and evaluating the evidence obtained. Consequently a review engagement provides less assurance than an audit.

Procedures performed

Our main procedures included the following:

- Performing an external environment analysis and obtaining an understanding of the sector, relevant social issues, relevant laws and regulations and the characteristics of the organization;
- Evaluating the acceptability of the reporting policies and their consistent application, such as assessment of the outcomes of the stakeholder dialogue and the reasonableness of accounting estimates made by management;
- Evaluating the application level in accordance with the Sustainability Reporting Guidelines G4 (application level Core) of GRI;
- Evaluating the design and implementation of the systems and processes for data gathering and processing of information as presented in the Report;
- Interviewing management (or relevant staff) at corporate and business division level responsible for the sustainability strategy and policies;
- Interviews with relevant staff responsible for providing the information in the Report, carrying out internal control procedures on the data and the consolidation of the data in the Report;
- Evaluating internal and external documentation, in addition to interviews, to determine whether the information in the Report is reliable;
- Analytical review of the data and trend explanations submitted for consolidation at group level.

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

Conclusion

Based on our procedures performed, and with due consideration of the limitations described in the paragraph 'Limitations in our scope', nothing has come to our attention that causes us to conclude that the sustainability information in the Report, in all material respects, does not provide a reliable and appropriate presentation of the policy of TenneT for sustainable development, or of the activities, events and performance of the organization relating to sustainable development during 2014, in accordance with the Sustainability Reporting Guidelines G4 (application level Core) of the GRI and the reporting criteria developed by TenneT as disclosed in enclosure 'CSR reporting principles' of the Report.

Rotterdam, 10 March 2015

Ernst & Young Accountants LLP

Signed by R.T.H. Wortelboer

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

Imports and exports

Imports is the amount of electricity in GWh transported from connected grids into our grid via the interconnections. Exports is the amount of electricity in GWh transported from our grid via the interconnections to connected grids.

Enclosures

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.

Society

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.

Environment

CO₂ footprint

The definition of grid losses and SF₆ are described separately.

- Our energy consumption is a mixture of directly measured usage and estimated figures for locations that do not have metering equipment.
- For air travel we use the figures which are presented to us by our air transportation service provider.
- 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 the detailed kilometres from our car lease service provider.
- For train travel we get a detailed yearly 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, which is updated every year.

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 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.

Enclosures

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). 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 large 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

The SF₆ emissions in Germany are excluding offshore.

Environmental incidents

Within our stations and lines we have technical equipment that contain oil or cooling liquids. An accidental spill is an environmental incident. These spills are reported periodically.

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.

Employees

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 work related incidents, resulting in fatalities, permanent total disabilities and lost workday cases. Number of work related 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.

There is a generally increasing safety awareness within the company, enforced by the Safety Vision 2018 which entails both to work on strengthening our safety culture and to improve related processes. Our employees and contractors are aware of their obligation towards TenneT to report incidents. We have no indications that the reported number of lost-time injuries is not accurate or complete.

Enclosures

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:

- Maternity leave is not considered as an illness;
- A day partly not worked due to illness is considered as a full day of illness

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, the different contract forms, age spread, in/outflow and full/part-time employees at TenneT NL exclude these subsidiaries.

The number of internal employees for TenneT D include interns. However, the percentages mentioned for inflow and outflow exclude this group.

Employee satisfaction / sustainable engagement

Employee satisfaction was measured by a bi-annual 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, quality and safety.

GRI table

GRI Code	Description	Omissions	External Assurance	Reference
General Standard Disclosures				
Strategy and Analysis				
G4-1	Statement from the most senior decision-maker of the organization	No omissions	Yes	Letter from the CEO
Organizational Profile				
G4-3	Name of the organization	No omissions	Yes	Profile
G4-4	Primary brands, products, and services	No omissions	Yes	Profile
G4-5	Location of the organization's headquarters	No omissions	Yes	Notes consolidated financial statements
G4-6	Number of countries where the organization operates, and names of countries where either the organization has significant operations	No omissions	Yes	Profile
G4-7	Nature of ownership and legal form	No omissions	Yes	Notes consolidated financial statements
G4-8	Markets served (including geographic breakdown, sectors served, and types of customers and beneficiaries).	No omissions	Yes	Markets
G4-9	Report the scale of the organization, including: Total number of employees, Total number of operations, net revenues (for public sector organizations), Quantity of products or services provided	No omissions	Yes	Key figures
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	Report any significant changes during the reporting period	No omissions	Yes	Notes consolidated financial statements
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	Stakeholders
G4-16	List memberships of associations (such as industry associations) and national or international advocacy organizations	No omissions	Yes	Markets
Identified Material Aspects and Boundaries				
G4-17	a. List all entities included in the organization's consolidated financial statements 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.	No omissions	Yes	Notes consolidated financial statements
G4-18	a. Explain the process for defining the 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 report 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	Report the effect of any restatements of information provided in previous reports, and the reasons for such restatements	No omissions	Yes	Environment
G4-23	Report significant changes from previous reporting periods in the Scope and Aspect Boundaries	No omissions	Yes	CSR Reporting Principles

Enclosures

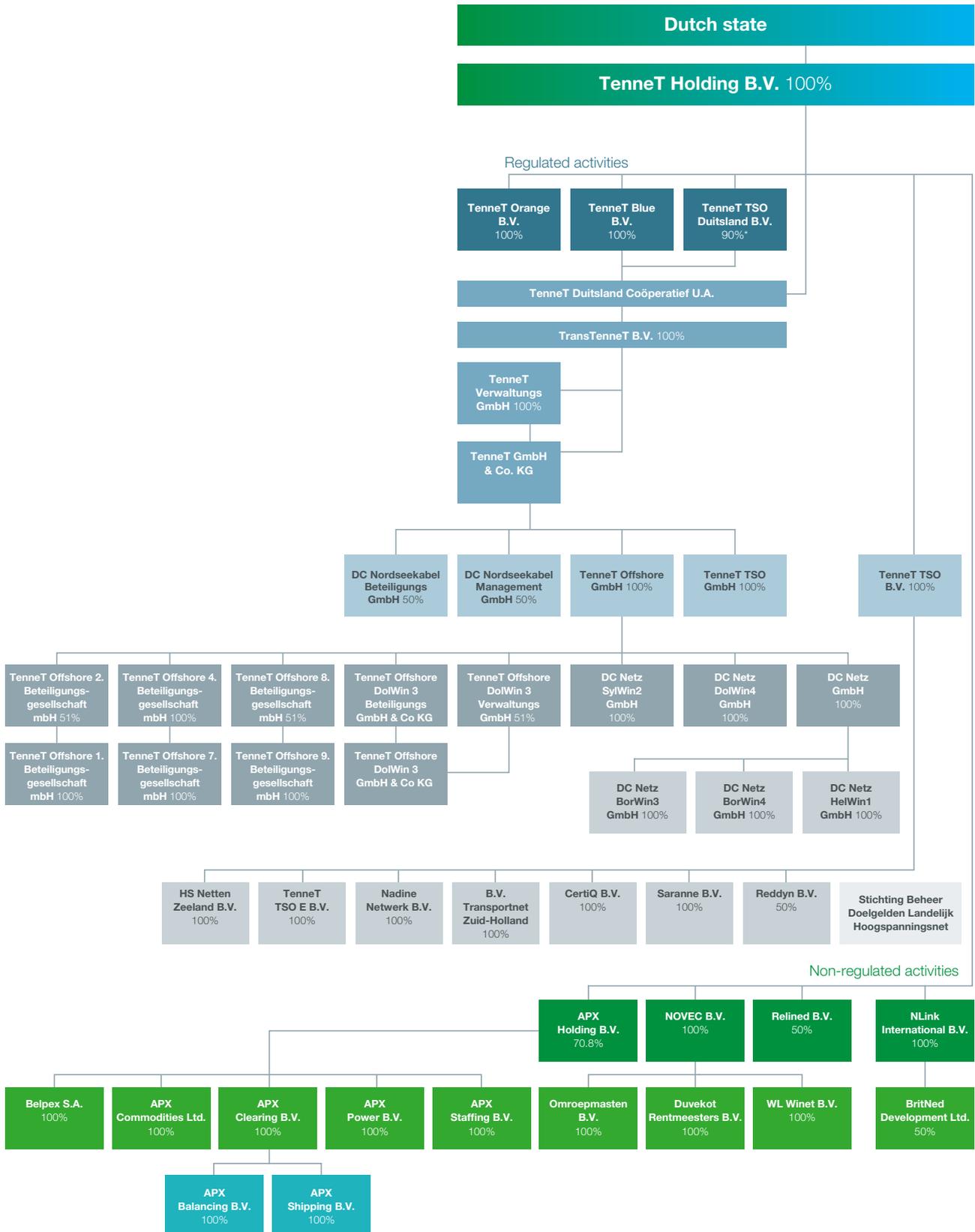
GRI Code	Description	Omissions	External Assurance	Reference
Stakeholder Engagement				
G4-24	Provide a list of stakeholder groups engaged by the organization	No omissions	Yes	Stakeholders
G4-25	Report the basis for identification and selection of stakeholders with whom to engage	No omissions	Yes	Stakeholders
G4-26	Report the 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	Report 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
Report Profile				
G4-28	Reporting period (such as fiscal or calendar year) for information provided	No omissions	Yes	Scope
G4-29	Date of most recent previous report (if any)	No omissions	Yes	Scope
G4-30	Reporting cycle (such as annual, biennial).	No omissions	Yes	Scope
G4-31	Provide the contact point for questions regarding the report or its contents.	No omissions	Yes	Colophon
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.	No omissions	Yes	Materiality, GRI Table and assurance report
G4-33	a. Report 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. Report 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	Scope, Report by the Supervisory Board
Governance				
G4-34	Report the 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, Report by the Supervisory Board
Ethics and Integrity				
G4-56	Describe the organization's values, principles, standards and norms of behavior such as codes of conduct and codes of ethics	No omissions	Yes	Risk Management, Fraud and Integrity
Specific Standard Disclosures				
Markets				
Management approach	Disclosures on management approach (G4-DMA)	No omissions	Yes	Markets
North Western European electricity market	TenneT specific aspect	N/A	Yes	Markets
Guarantees of origin (CertiQ)	TenneT specific aspect	N/A	Yes	Markets
Customers	Results of surveys measuring customer satisfaction (G4-PR5)	No omissions	Yes	Markets
Transition to an integrated market	TenneT specific aspect	N/A	Yes	Markets

Enclosures

GRI Code	Description	Omissions	External Assurance	Reference
Society				
Management approach	Disclosures on management approach (G4-DMA)	No omissions	Yes	Society
Community engagement, Connecting citizens, Electromagnetic field, NGO's	Percentage of operations with implemented local community engagement, impact assessments, and development programs (G4-SO1)	No omissions (for 100% of TenneT's activities)	Yes	Society
Company code	Confirmed incidents of corruption and actions taken (G4-SO5)	TenneT reports total integrity issues	Yes	Integrity
Political contribution	Total value of political contributions by country and recipient/beneficiary (G4-SO6)	TenneT contributes to politics by providing its expert's opinion. For instance to develop the 'Green Paper'	Yes	Society
Future of energy supply	TenneT specific aspect	N/A	Yes	Society
Environment				
Management approach	Disclosures on management approach (G4-DMA)	No omissions	Yes	Environment
SF ₆ emissions	Materials used by weight or volume (G4-EN1)	No omissions	Yes	Environment
Oil leakages	Materials used by weight or volume (G4-EN1)	No omissions	Yes	Environment
Grid losses	Energy consumption within the organization (G4-EN3)	No omissions	Yes	Environment
Biodiversity	Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas (G4-EN12)	Impact is not limited to protected or high biodiversity value areas	Yes	Environment
Carbon footprint/GHG emissions	Direct greenhouse gas (GHG) emissions (Scope 1) (G4-EN15) Indirect greenhouse gas (GHG) emissions (Scope 2) (G4-EN16)	No omissions	Yes	Environment
Environmental Incidents	Total number and volume of significant spills (G4-EN24)	TenneT reports oil leakages	Yes	Environment
Employees				
Management approach	Disclosures on management approach (G4-DMA)	No omissions	Yes	Employees
Employment	Total number and rates of new employee hires and employee turnover by age group, gender, and region (G4-LA1)	No omissions	Yes	Employees
Occupational Health and Safety (employees and contractors)	Type of injury and rates of injury, occupational diseases, lost days, and absenteeism, and total number of workrelated fatalities, by region and by gender (G4-LA6)	No omissions	Yes	Employees
Training and education	Average hours of training per year per employee by gender, and by employee category (G4-LA9)	TenneT reports spend on training	Yes	Employees
Training and education	Percentage of employees receiving regular performance and career development reviews, by gender and by employee category (G4-LA11)	Not reported by gender and employee category	Yes	Employees
Diversity	Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity (G4-LA12)	TenneT reports gender and age group	Yes	Employees
Company code – compliance officer	Number of grievances about labor practices filed, addressed, and resolved through formal grievance mechanisms (G4-LA16)	TenneT reports total integrity issues	Yes	Integrity
Non-discrimination	Total number of incidents of discrimination and corrective actions taken	TenneT reports total integrity issues	Yes	Integrity

The GRI table is integral part of our Integrated Annual Report and is therefore in scope of our external assurance.

Legal structure



* 10% Stichting Beheer Doelgelden Landelijk Hoogspanningsnet

Organisation

Activities

TenneT Holding B.V. manages the following activities (as at December 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 energy supply and demand in the Dutch electricity grid.

The electricity grids of 110 kV and higher are owned by various subsidiaries of TenneT TSO B.V. This structure was established for several reasons, including the 2009 acquisition 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 South Holland province.

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 50/50 joint venture 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 50 kV 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 connect or 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 DoWin1 connection systems, which connect or 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 system which connect or will connect certain offshore wind farms located in the North Sea with the high-voltage grid of TenneT TSO GmbH.

TenneT Offshore DolWin3 Beteiligungs GmbH & Co KG

This limited partnership under German law participates as a managing limited partner to TenneT Offshore DolWin3 GmbH & Co KG

TenneT Offshore DolWin3 Verwaltungs GmbH

This company participates as a general partner (Komplementärin) to TenneT Offshore DolWin3 GmbH & Co KG

TenneT Offshore DolWin3 GmbH & Co KG

This limited partnership under German law is responsible for the construction, maintenance and management of the DolWin3 connection system which connects or 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 connects or 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 connects or will connect certain offshore wind farms located in the North Sea with the high-voltage grid of TenneT TSO GmbH.

DC Netz GmbH

This entity is a holding company, holding the shares in DC Netz BorWin3 GmbH, DC Netz BorWin4 GmbH and 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 connects or 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 connects or 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 connects or will connect certain offshore wind farms located in the North Sea with the high-voltage grid of TenneT TSO GmbH.

NordLink

A 623 km-long direct current (HVDC) power cable is currently being planned and developed by TenneT TSO GmbH and the Norwegian TSO Statnett in cooperation with German bank KfW. The NordLink project comprises the following entities:

DC Nordseekabel Management GmbH

This company participates as a managing limited partner to DC Nordseekabel GmbH & Co KG.

DC Nordseekabel Beteiligungs GmbH

This company participates as a general partner (Komplementär) to DC Nordseekabel GmbH & Co KG.

DC Nordseekabel GmbH & Co KG

This limited partnership under German law cooperates with Statnett SF or its subsidiary on the development, engineering and maintenance of a HVDC interconnector cable between Norway and Germany.

Corporate entities

Following the acquisition in 2010 of transpower (now: TenneT TSO GmbH and TenneT Offshore GmbH), TenneT's structure comprises the following companies:

Enclosures

TenneT TSO Duitsland B.V., TenneT Orange B.V. and TenneT Blue B.V.

These entities are holding companies and are 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 electricity that is sustainably generated. The object of these 'Guarantees of Origin' is to confirm sustainable generation and to obtain grants under the government scheme operated by SenterNovem. The Guarantees are registered, issued and traded electronically.

Stichting Beheer Doelgelden Landelijk Hoogspanningsnet

The Foundation for the Management of Allocated Funds from the National High-Voltage Grid was established as a trust office to manage the allocated funds TenneT receives in its capacity as administrator of the national high-voltage grid by performing 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 upgrading of the Dutch high-voltage grid or, if not used for that purpose, are settled in future tariffs. The foundation holds a 10% equity interest in TenneT TSO Duitsland B.V. as part of its investment portfolio.

Non-regulated 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. 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 is 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 Holding has the following subsidiaries:

Belpex S.A.

Belpex is the Belgian electricity exchange.

APX Commodities Ltd.

APX Commodities Ltd. is the British electricity and gas exchange that facilitates two thirds of all 24-hour and spot trading of gas in the United Kingdom and is regulated by the UK Financial Services Authority (FSA).

APX Clearing B.V.

The company that 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 Power B.V.

The Dutch company that trades spot contracts for electricity.

APX Staffing B.V.

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.

Enclosures

BritNed Development Ltd.

BritNed Development Ltd. is a 50/50 joint venture of NLink International B.V. and National Grid Interconnector Holdings 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 signals for radio, television and telecommunication purposes.

Omroepmasten B.V.

NOVEC B.V. split off its high antenna masts for ether communication to this company.

Duvekot Rentmeesters B.V.

Duvekot Rentmeesters B.V. offers its clients estate administration and consultancy services.

WL Winet B.V.

In April 2014, NOVEC acquired 100% of the shares of this company. WL Winet B.V. provides services for the construction of wireless telecommunications and data networks.

Open Tower Company B.V.

The shares in this holding company are held by NOVEC B.V. (25%) and CIF Holding Wireless B.V. (75%). This company holds 100% of the shares in Mobile Radio Networks Vehicle B.V., Air Towers (1) B.V. and Air Towers (2) B.V., Dutchfort B.V., as well as 100% of the shares in Colonne B.V. (an asset company that owns pylons used for antenna sites).

RELINED B.V.

This 50/50 joint venture between TenneT Holding B.V. and ProRail B.V. operates certain excess capacity related to the fibre-optic cable infrastructure of the Dutch high-voltage grid and the railway network.

Abbreviations, definitions and ratio's

AC – Alternating current

In alternating current (AC), the flow of electric periodically reverses direction. Whereas in direct current (DC), the flow of electric is only in one direction. AC is used to transport electricity over relatively shorter distances and DC for relatively longer distances.

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 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.

Balancing markets

The entirety of institutional, commercial and operational arrangements that establish market-based management of the function of Balancing within the framework of the European Network Codes.

BNetzA – Bundesnetzagentur für Elektrizität, Gas, Telekommunikation, Post und Eisenbahnen

German regulatory authority, which maintains and promotes competition in so-called grid markets amongst other duties.

BRP – Balance responsible party

Balance Responsibility is the responsibility of customers (with the exception of protected customers) and licence holders to draw up, or to have drawn up, programmes for

the production, transmission and consumption of electricity for the benefit of grid administrators, and to act in accordance with these programmes.

BritNed

The 260 km HVDC BritNed cable has a capacity of 1000 MW and interconnects the Dutch and British electricity grids (commissioned in 2011).

BUND – Bund für Umwelt und Naturschutz Deutschland

BUND is a German non-governmental organisation dedicated to preserving nature and protecting the environment.

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).

CO₂ – Carbon dioxide

Carbon dioxide is an important greenhouse gas, burning of carbon-based fuels rapidly increased its concentration in the atmosphere, leading to global warming

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

The social responsible business practices of a company balancing people, planet and profit.

DACF – Day Ahead Congestion Forecast

Day Ahead Congestion Forecast is a regular procedure for power flow forecasts in the European interconnected energy network, used for operational planning purposes.

DC – Direct current

In direct current (DC), the flow of electric is only in one direction. Whereas in alternating current (AC), the flow of electric periodically reverses direction. DC is used to transport electricity over relatively longer distances and AC for relatively shorter distances.

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 the dependence on fossil fuels like oil, natural gas or coal, and nuclear power.

EIB – European Investment Bank

The European Investment Bank is the European Union's bank. They are the only bank owned by and representing the interests of the European Union Member States

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

FTE simplifies work measurement by converting work load hours into the number of people required to complete that work.

GO – Guarantee of Origin

A tradable certificate that offers conclusive proof to the final owner of the source of the energy consumed.

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.

Market coupling

Market coupling refers to the projects and activities that are meant to implement a centralised settlement process for power exchanges, and by which the cross border transfer capacity is implicitly allocated to market participants. It is the most efficient method for allocating cross border transfer capacity, leading to the highest possible welfare gain due to trading of electricity (in a certain timeframe).

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.

NABU – Naturschutzbund Deutschland

NABU is the leading natural conservation NGO in Germany with focus on bird protection and the German partner of Bird Life International, the world leading bird protection organisation.

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 580 km HVDC NorNed cable has a capacity of 700 MW and interconnects the Dutch and Norwegian electricity grids (commissioned in 2008).

OPEX – Operating expenditure

Operating expenditure are expenses that a company incurs as a result of normal business operations

PCR – Price Coupling of Regions

Price Coupling of Regions is the name of the project by which the power exchanges organise their part of the market coupling processes. See also 'Market coupling'

RES – Renewable Energy Sources

Renewable energy sources refers to natural energy sources such as sunlight and wind.

ROIC – Return on invested capital

EBIT/average invested capital during year.

RGI – Renewables Grid Initiative

RGI 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

The 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.

SCADA – Supervisory Control and Data Acquisition

SCADA is a system operating with coded signals over communication channels so as to provide control of remote equipment.

SF₆ – Sulfur Hexafluoride

Sulfur hexafluoride is an inorganic, colorless, odorless, non-flammable, extremely potent greenhouse gas which is an excellent electrical insulator

TSC – TSO Security Cooperation

TSO Security Cooperation is a transnational cooperation between European TSOs that focuses on secure transmission operations.

TSO – Transmission System Operator

A company which is 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.

Valorisation

The process of using knowledge to create value and making this knowledge suitable and available for economic or societal utilisation and to translate this into high-potential products, policies, services and processes.

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 that can do damage to senses of sight and hearing.

VSC – Voltage Source Converter

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.

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'.

Enclosures

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We look forward to receiving your feedback on this report,
please send an email to communication@tennet.eu

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.