Annual Report
TENNET TSO B.V.
2012

Report by the management board

Key events 2012

Investing in maintaining a high security of supply and increasing sustainability
TenneT is expanding and strengthening the high-voltage grid throughout the Netherlands. More than 300 high-voltage infrastructure projects are in progress, including four long distance 380 kV connections. These 380 kV projects are referred to as: • Randstad 380 North and South ring • Northwest 380 (Ens - Eemshaven) • Doetinchem - Wesel (interconnector with Germany) • Southwest 380 (Borssele to Tilburg). Conditional approvals were given by the Ministry of Economic Affairs for these four long-distance projects. The construction of a twenty kilometres underground 'highway' to transport electricity across the Dutch Randstad area is well underway. The first 10 kilometres of underground cabling between Delft and Pijnacker-Nootdorp has been finished. Cable links of this length and capacity installed underground in a highvoltage grid at such high-voltage levels (380 kV) are unprecedented. In the Noordoostpolder, TenneT has commenced the installation of 110 kV cables with the aim of connecting the Netherlands' largest wind farm to the highvoltage grid by 2014.

Obligation to repay past system services fees in the Netherlands
Following a court decision in the Netherlands about an ambiguous regulation in the Electricity Act an obligation for TenneT arose to repay past system services fees to electricity consumers without a direct connection to a grid maintained by a TSO. The total obligation for this matter amounts to some EUR 245 million, which impacted the 2012 reported IFRS results. The expenses for this matter will be reimbursed through future tariffs. Further details on this matter are disclosed in note 7.15 of the consolidated financial statements.

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

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

Use of underlying financial information
In evaluating the performance of TenneT's businesses, the assessment of performance and allocation of resources is based on underlying financial information instead of information reported in accordance with IFRS. Underlying financial information is based on the principle to recognise regulatory assets and liabilities in connection with TenneT's regulated activities whereas IFRS does not permit this. This implies that amounts resulting from past events and which are allowed or required to be settled in future grid tariffs are recorded as an asset or liability, respectively. The concept behind the underlying Financial information is that relevant regulatory revenues and expenses are matched with each other during a corresponding reporting period. TenneT's Management Board believes that the presentation of underlying financial information leads to a sound, consistent and transparent financial insight into current and future business developments and provides improved insight in the true economic performance of TenneT. TenneT's Management Board also uses the underlying financial information in

communicating financial performance to investors and announcements of financial results. The analysis in this financial report principally focuses on underlying financial information.

Underlying financial information is presented in the consolidated financial statements under ‘segment reporting’ in note 5. The accounting policy on segment reporting is further detailed in note 3.1 of the consolidated Financial statements. Reconciliations of underlying Financial information to reported IFRS financial information can be found in note 5 ‘segment reporting’ of the consolidated financial statements.

Key underlying figures 2012

Key underlying figures are summarised in the table below. TenneT’s management evaluates the performance of the business primarily based on earnings before interest and taxes (‘EBIT’) Financing activities (including resulting finance income and expense) and income taxes are managed by the parent company and are further evaluated in the consolidated Financial statements of the parent company which are based on the reported IFRS figures.

Key underlying figures *(in EUR million)*	**2012**	**2011**	Change	Change in %
Revenues	626	672	-46	-7%
Operating expenses	-508	-464	44	9%
EBIT	118	208	-90	-43%
Assets	4,155	3,803	352	9%
Liabilities	2,900	2,549	351	14%
Equity	1,255	1,254	1	-%

Decrease in revenue (underlying)

Total underlying revenue decreased by 7% to EUR 626 million in 2012 (2011: EUR 672 million). The lower revenue results from lower permitted regulated revenue due to a one-off gain caused by the favourable outcome of legal proceedings in respect of the Dutch regulator’s method decision for the regulatory period from 2008 to 2010. This one-off gain resulted in EUR 116 million additional permitted regulated revenue in 2011, compared to EUR 18 million of additional revenue in 2012. The lower permitted regulated revenue in the Netherlands due to this one-off gain was partially offset by an increase in revenue due to the negative regulatory “x-factor” (EUR 29 million), additional compensation for cross border lease transmission expenses (EUR 19 million), additional compensation for capital expenditures for significant investments (EUR 10 million) and other items (EUR 6 million decrease).

Increase in operating expenses (underlying)

The increase in underlying operating expenses mainly results from many small items.

Earnings Before Interest and Taxes (underlying)

Due to the lower permitted regulated revenue and the development of operating expenses, the underlying EBIT for the TSO showed a decrease of approximately EUR 90 million.

Financial position (underlying)

Assets

Total underlying assets as at 31 December 2012 were EUR 0.35 billion higher than as at 31 December 2011. Total underlying assets increased due the recognition of a regulatory asset for expenses that will be recovered through future tariffs. Following a court decision in the Netherlands about an ambiguous regulation in the Electricity Act a liability for TenneT has arisen to repay past system services fees collected from electricity consumers without a direct connection to the TenneT grid. The total regulatory liability for this matter has been estimated at EUR 264 million, which will be recouped by TenneT through future tariffs, resulting in an underlying regulatory asset for the same amount.

Liabilities

Underlying liabilities increased mainly due to an increase of the auction receipts and the provision of system services.

Stable Equity

Net results and dividend paid offsett each other in 2012. Therefore total equity as at 31 December 2012 is almost equal to total equity at 31 December 2011.

Finance result and income tax expenses

Net finance result increased by EUR 13 million to negative EUR 25 million in 2012 (2011:negative EUR 38 million) mainly caused by the interest on borrowings to the Shareholder.

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

Comparison of underlying figures to reported IFRS figures

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

Comparison underlying to reported		**2012**			**2011**	
(in EUR million)	Underlying	Reported	Diffference	Underlying	Reported	Diffference
Revenues	626	517	109	672	697	-25
Operating expenses	-508	-388	-120	-464	-463	1
EBIT	118	129	-11	208	234	-26
Assets	4,155	4,022	133	3,803	3,736	67
Liabilities	2,900	2,201	699	2,549	1,934	615
Equity	1,255	1,821	-566	1,254	1,802	-548

Revenues, operating expenses and EBIT

Underlying EBIT was EUR 11 million lower compared to reported EBIT under IFRS due to (1) recognition of regulatory assets and liabilities in the underlying financial information, (2) recognition of auction receipts as revenue under IFRS and (3) impairment reversal under IFRS.

Underlying EBIT included revenues for expenses that will be recovered by TenneT in future tariffs. In the IFRS reported figures these future settlements were not included in current year EBIT. In 2012, reported EBIT contained a provision and related expenses for the system services fees in the Netherlands, which had a negative impact of EUR 242 million. In the underlying financial information a regulatory asset was recognised as these expenses will be recouped through future tariffs.

In addition, IFRS reported figures included the recognition of auction receipts as revenue, whilst in the underlying figures auction receipts and related cost were recognised as a regulatory liability in the statement of financial position.

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

Assets

The underlying assets included regulatory assets which will be settled in future tariffs. Furthermore, the measurement of the tangible fixed assets differed in the IFRS reported figures compared to the underlying financial information. This difference relates to the impairment reversal under IFRS for the Dutch assets (EUR 120 million).

Liabilities

Underlying liabilities showed a higher balance compared to the liabilities reported under IFRS resulting from the regulatory liabilities recognised in the underlying figures. The regulatory liabilities comprised auction receipts, amounts to be settled in tariffs, investments extracted from auction receipts and liabilities for maintenance of the energy balance between supply and demand.

Equity

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

Cash flows

The consolidated cash flows can be summarised as follows:

Consolidated cash flows *(in EUR million)*	**2012**	**2011**	Change	Change in %
Net cash flows from operating activities	276	362	-86	-24%
Net cash flows used in investing activities	-209	-303	94	-31%
Net cash flows from financing activities	-70	-59	-11	19%
Net change in cash and cash equivalents	**-3**	**0**	**-3**	**-%**

Cash flows from operating activities in 2012 are almost equal to the cashflow from operating activities in 2011.
Decreased investing cash outflows originated almost entirely from decreased capital expenditures.
Decreased cash inflows from financing activities result from dividend payments to equity holders of the company.

Funding

TenneT TSO B.V. is financed by TenneT Holding B.V. (the Holding) with a long term credit facility; the maximum of this facility has not been defined. The facility matures after 10 years and is automatically extended every year for another year, unless agreed upon otherwise. The conditions include a cross default clause. TenneT aims to have a capital structure which is in line with the risk profile of its (predominantly regulated) activities and with the economic useful lives of its assets. To maintain ample access to a wide range of financing options and consistent with government policy and regulatory assumptions, the Holding is committed to maintaining a senior unsecured long-term credit rating of at least A3/A-. In addition, the Holding strives to have sufficient liquidity, consisting of cash and credit lines to cover the expected net cash outflow for the next 12 months on a rolling basis for all of its subsidiaries.
To further strengthen its equity base, the Holding has entered into a partnership with Mitsubishi Corporation. In December 2012 the Holding and Mitsubishi Corporation closed their partnership with respect to two German offshore high-voltage cable projects, BorWin1 en BorWin2. Mitsubishi's voting interest is 49% with an aggregate maximum equity commitment of EUR 240 million. Furthermore in January 2013, TenneT and Mitsubishi Corporation signed an agreement on an investment in two more offshore projects, HelWin2 and Dolwin2, in which Mitsubishi also will acquire a 49% voting interest for a maximum equity investment of EUR 336 million.

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

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

Risks

The financial risk for TenneT TSO is executed by the Treasury department of TenneT Holding BV. The main treasury risks TenneT TSO recognizes are: market risk, credit risk, liquidity risk and refinancing risk. For further details of these risks reference is made to Chapter 4 of the financial statements

Outlook

TenneT faces a very sizable investment programme, currently estimated to amount to approximately EUR 5 billion over the next 10 years. These investments mainly involve new connections triggered primarily by large-scale conventional electricity production capacity in a number of favourably situated coastal locations in the Netherlands. TenneT expects to continue to have a significant need for capital during the coming years.

FINANCIAL STATEMENTS
TENNET TSO B.V.
2012

These financial statements comprise:

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

To the financial statements have been added:

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

Consolidated statement of comprehensive income

For the year ended 31 December

(in EUR million)

	Note	2012		2011	
Revenue	6.1		**517**		**697**
Operating expenses					
Energy and capacity expenses	6.2.1	168		168	
Transmission grid and system expenses	6.2.2	84		74	
Personnel expenses	6.2.3	66		56	
Depreciation and amortisation of assets	7.1, 7.2	132		130	
Impairments	7.1	5		-3	
Impairment reversal	7.1	-120		-	
Other losses / (gains) – net	6.2.4	-4		-9	
Other operating expenses	6.2.5	57		47	
Total operating expenses			**388**		**463**
Operating profit			**129**		**234**
Finance income	6.3	31		13	
Finance expenses	6.3	56		51	
Finance result			**25**		**38**
Profit before income tax			**104**		**196**
Income tax expense	7.4	25		47	
Share of result of associates	7.3	-		-2	
Profit for the year			**79**		**151**
Other comprehensive income (net of tax)			**-**		**-**
Total comprehensive income (net of tax)			**79**		**151**

Both profit for the year as well as total comprehensive income are fully attributable to Equity holders of the company.

Consolidated statement of financial position
(in EUR million)

Assets	Note	2012	2011	1 January 2011
Non-current assets				
Tangible fixed assets	7.1	2,718	2,491	2,355
Intangible assets	7.2	82	88	75
Investments in associates	7.3	13	13	11
Other financial assets	7.5	375	375	375
Total non-current assets		**3,188**	**2,967**	**2,816**
Current assets				
Inventories	7.6	4	5	5
Accounts- and other receivables	7.7	753	693	113
Financial assets	7.8	33	24	-
Income tax receivable	7.4	1	-	-
Cash and cash equivalents	7.9	40	43	73
		831	765	191
Assets classified as held for sale	7.10	3	4	-
Total current assets		**834**	**769**	**191**
Total assets		**4,022**	**3,736**	**3,007**

Consolidated statement of financial position
(in EUR million)

Equity and liabilities	Note	2012	2011	1 January 2011
Total Equity	7.11	**1,821**	**1,802**	**1,051**
Non-current liabilities				
Borrowings	7.12	1,490	1,490	1,475
Deferred income	7.13	122	104	62
Deferred tax liability	7.4	178	127	134
Provisions	7.14	23	19	17
Total non-current liabilities		**1,813**	**1,740**	**1,688**
Current liabilities				
Account- and other payables	7.15	25	40	86
Other financial liabilities	7.16	30	36	42
Provisions	7.14	247	3	2
Bank overdrafts		-	-	30
Other liabilities	7.17	86	115	108
Total current liabilities		**388**	**194**	**268**
Total equity and liabilities		**4,022**	**3,736**	**3,007**

Consolidated statement of changes in equity

(in EUR million)

		Paid-up and called-up capital	Share premium reserve	Retained earnings	Unappropriated result	**Total Equity**
	Note	*7.11*	*7.11*	*7.11*		
Balance at 1 January 2011		**100**	**-**	**1,017**	**-66**	**1,051**
Total comprehensive income		-	-	-	151	151
Capital contribution	7.11	-	600	-	-	600
Dividends paid	7.11	-	-	-	-	-
Appropriation remaining prior year profit		-	-	-66	66	-
Balance at 31December 2011		**100**	**600**	**951**	**151**	**1,802**
Total comprehensive income		-	-	-	79	79
Dividends paid	7.11	-	-	-	-60	-60
Appropriation remaining prior year profit		-	-	91	-91	-
Balance at 31 December 2012		**100**	**600**	**1,042**	**79**	**1,821**

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

	Note	2012		2011	
Operational activities					
Profit for the year			**79**		**151**
Non-cash adjustments to reconcile profit to net cash flows:					
Depreciation, amortisation and impairment (reversal) of assets	7.1, 7.2	16		127	
Gain on disposal of tangible and intangible fixed assets	6.2.4	-4		-9	
Finance income	6.3	-31		-13	
Finance expenses	6.3	56		51	
Income tax expense	7.4	25		47	
Share of loss of associates	7.3	-		-2	
Increase in deferred income	7.13	18		42	
Movements in provisions and other (financial) liabilities and Assets		298		293	
			378		**536**
Working capital adjustments:					
(Increase)/decrease in trade and other receivables		-145		-280	
(Increase)/decrease in inventories		1		-	
Increase/(decrease) in trade and other payables		-21		-46	
Increase/(decrease) in other current (financial) liabilities		-16		1	
			-181		**-325**
Net cash flows from operating activities			**276**		**362**
Investment activities					
Purchase of tangible and intangible fixed assets	7.1, 7.2	-226		-294	
Proceeds from sale of tangible and intangible fixed assets		5		12	
Contributions to current financial assets	7.8	-19		-24	
Proceeds from repayment of current financial assets	7.8	10		-	
Interest received		21		3	
Net cash flows used in investing activities			**-209**		**-303**
Financing activities					
Proceeds from borrowings	7.12	-		15	
Interest paid		-75		-74	
Proceeds from capital contribution from equity holders of the company	7.11	300		300	
Deposit to shareholder		-235		-300	
Dividends paid to equity holders of the company	7.11	-60		-	
Net cash flows from financing activities			**-70**		**-59**
Net change in cash and cash equivalents			**-3**		**0**
Cash and cash equivalents at 31 December	7.9	40		43	
Cash and cash equivalents at 1 January	7.9	43		43	
			-3		**0**

1 Corporate information

1.1 General

The consolidated financial statements of TenneT TSO B.V. and its subsidiaries (hereafter referred to as "TenneT" or "the Group") for the year ended 31 December 2012 were authorised for issue on 22 March 2013.

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

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

TenneT Holding B.V. holds the entire issued share capital of TenneT TSO B.V. The head office (and legal seat) is located at Arnhem.

1.2 Main developments and changes in the Group structure

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

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

Provision for system services fees
Following a court decision an obligation for TenneT arose to repay past system services fees to electricity consumers without a direct connection to a grid maintained by a TSO. The total provision for this matter as at 31 December 2012 amounts to EUR 243 million. Further details on this matter are disclosed in note 7.14.

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

When determining these impairment losses the company did not anticipate revenues from auction receipts due to uncertainty as to the amounts involved and the extent to which future revenues could be attributed to the assets subject to the impairment review. In 2012 this assumption has been revised and as such the revenues from auction receipts are now included as income for impairment testing purposes at 31 December 2012, solely based on the inclusion of auction receipts as part of cash inflow for impairment testing purposes Therefore, an indication existed that the economic performance of the assets may be better than expected due to a change in an accounting estimate. This indication has been confirmed by the impairment test prepared as at 31 December 2012. As a result the accumulated impairment losses up till 2011 are reversed to their full extent. After taking into account additional depreciation expenses to be recognised if no impairment had originally been recorded, the reversal amounts to EUR 120 million.

For the avoidance of doubt, the negative cash flow impact resulting from the above mentioned Method Decision remained unchanged.

Further details on this matter are disclosed in note 7.1.

2 Basis of preparation

2.1 General basis for preparation

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

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

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

2.2 Basis for consolidation

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

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

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

The Group’s interests in jointly controlled entities are accounted for by proportionate consolidation. The Group combines its share of the joint ventures’ individual income and expenses, assets and liabilities and cash flows on a line-by-line basis with similar items in the Group’s financial statements. The Group recognises the portion of gains or losses on the sale of assets by the Group to the joint venture that is attributable to the other ventures. The Group does not recognise its share of profits or losses from the joint venture that result from the Group’s purchase of assets from the joint venture until it resells the assets to an independent party. However, a loss on the transaction is recognised immediately if the loss provides evidence of a reduction in the net realisable value of current assets, or an impairment loss.

The following legal entities are included in the consolidation:

	Share of capital held
TenneT TSO B.V., Arnhem	
• CertiQ B.V., Arnhem	(100%)
• Saranne B.V., Arnhem	(100%)**
• TSO Auction B.V., Arnhem	(100%)
• B.V. Transportnet Zuid-Holland, Voorburg	(100%)**
• HS Netten Zeeland B.V., Middelburg	(100%)**
• Nadine Netwerk B.V., Arnhem	(100%)**
• TenneT TSO E B.V., Arnhem	(100%)**
• Reddyn B.V., Arnhem	(50%)
• Stichting Beheer Doelgelden Landelijk Hoogspanningsnet, Arnhem	(0%)*

* The consolidation also includes Stichting Beheer Doelgelden Landelijk Hoogspanningsnet (i.e. "the Foundation for the Management of Allocated Funds from the National High-Voltage Grid", hereafter: 'The Foundation') which is based in Arnhem. The Foundation for the Management of Allocated Funds from the National High-Voltage Grid is included in the consolidation because TenneT can exercise direct control over its management and financial and operational policy. The Foundation for the Management of Allocated Funds from the National High-Voltage Grid aims to temporarily manage the allocated funds which TenneT TSO B.V., in its capacity as administrator of the Dutch national transmission grid, collects

during the fulfilment of its statutory tasks. Cash and cash equivalents held by the Foundation for the Management of Allocated Funds from the National High-Voltage Grid are recorded as an asset under 'Cash and cash equivalents' and are further specified as 'Funds not at free disposal' (see note 7.9 Cash and cash equivalents).

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

2.3 Significant accounting judgments, estimates and assumptions

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

Areas of judgment that have the most significant effect on the amounts recognized in the financial statements relate to the identification of cash generating units..

Estimates that need to be made by management relate to the useful lives of non-current assets (notes 7.1 and 7.2), the impairment review of non-current assets (notes 7.1 and 7.2), the establishment of provisions (note 7.14), revenue recognition (note 6.1), costs of maintaining and operating transmission grids (note 6.2.2) and the determination of fair values for financial instruments (note 4.2.6). Estimates are based on historical quoted market prices, experience and other assumptions that are considered reasonable under the relevant circumstances.

3 Summary of accounting principles applied

3.1 Summary of significant accounting policies

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

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

After initial recognition, goodwill is measured at cost less than any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating unit (CGU) s, 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
TenneT TSO's Management Board assesses performance and allocates resources based on underlying financial information instead of information reported in accordance with IFRS. This underlying financial information is based on the principle to recognise regulatory assets and liabilities for all of TenneT’s regulated activities. This implies that amounts resulting from past events and which are allowed or required to be settled in future tariffs are recorded as an asset or liability, respectively.

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

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

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

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

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

Distinction between current and non-current
An asset (liability) is classified as current when it is expected to be realized (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 and transmission of energy together with the sales value derived from the provision of other services to customers during the year. Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made.

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

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

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

Income taxes

Current income taxes

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

Deferred tax

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

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

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

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

Tangible fixed assets

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

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

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

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

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

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

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

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

Borrowing costs
General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

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

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

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

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

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

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

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

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

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

Impairment of non-financial assets

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

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

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

Investment in associates

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

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

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

Financial assets

General

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

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

Financial assets at fair value through profit or loss

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

Loans and receivables

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

Held-to-maturity investments

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

Available-for-sale financial investments

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

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

Inventories

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

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

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

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

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

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

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

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

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

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

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

Decommissioning provisions
The provision for decommissioning serves to cover the costs associated with the decommissioning of abandoned high-voltage connections and underground cables. Decommissioning costs are provided at the present value of expected costs to settle the obligation using estimated cash flows and are recognised as part of the cost of the particular asset. The estimated future costs of decommissioning are reviewed annually and adjusted as appropriate. Changes in the estimated future costs or

in the discount rate applied for existing obligations are added to or deducted from the cost of the asset. Estimated future costs for decommissioning obligations arsing after the related asset is brought into use are recognised in the statement of income.

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

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

3.2 Effect of new accounting standards

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

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

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

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

3.3 Change in accounting policies

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

In the absence of an IFRS standard that specifically applies to regulated revenues, TenneT Holding's management has used its judgement in applying accounting policies for the regulated businesses. In this respect TenneT Holding management evaluates the business of the TenneT Holding Group, which includes activities in both the Netherlands and Germany. For an overview of the German TenneT entities reference is made to note 8.2.

A key difference between the regulatory systems in the Netherlands and Germany is that in the Netherlands total revenue is regulated whereas in Germany tariffs themselves are regulated. As a consequence, the accounting method for regulated revenues in the Netherlands was different from the method in Germany. For the Dutch regulated activities TenneT recognised assets or liabilities for any differences between predicted and actual revenues; for the German regulated activities no assets or liabilities were recognised due to the different regulatory environment. In 2012 accounting policies applied in the Netherlands and Germany have been aligned.

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

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

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

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

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

Condensed statement of financial position as at 1 January 2011	note	As originally reported*	Restatement	Restated balance
Non-current assets		**2,852**	**-36**	**2,816**
Current assets				
Account- and other receivables	D	124	-11	113
All other current assets		78	-	78
		202	**-11**	**191**
Total assets		**3,054**	**-47**	**3,007**
Equity		**534**	**517**	**1,051**
Non-current liabilities				
Deferred income	A	698	-636	62
Deferred tax liability	C	-	134	134
All other non-current liabilities		1,492	-	1,492
		2,190	-502	1,688
Current liabilities				
Deferred income	A	12	-12	-
Other liabilities	B	158	-50	108
All other current liabilities		160	-	160
		330	**-62**	**268**
Total equity and liabilities		**3,054**	**-47**	**3,007**

Condensed statement of financial position as at 31 December 2011	note	As originally reported*	Restatement	Restated balance
Non-current assets		**3,018**	**-51**	**2,967**
Current assets				
Account- and other receivables	D	708	-15	693
All other current assets		76	-	76
		784	**-15**	**769**
Total assets		**3,802**	**-66**	**3,736**
Equity		**1,254**	**548**	**1,802**
Non-current liabilities				
Deferred income	A	793	-689	104
Deferred tax liability	C	1	126	127
All other non-current liabilities		1,509	-	1,509
		2,303	**-563**	**1,740**
Current liabilities				
Deferred income	A	11	-11	-
Other liabilities	B	158	-40	115
All other current liabilities		76	-	79
		245	**-51**	**194**
Total equity and liabilities		**3,802**	**-66**	**3,736**

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

Condensed statement of income for the year 2011	note	As originally reported	Restatement	Restated amount
Revenue	A, B	**672**	**25**	**697**
Operating expenses	E	463	-	463
Operating profit		**209**	**25**	**234**
Finance result	F	-50	12	-38
Profit before income tax		**159**	**37**	**196**
Income tax expense	C	39	6	45
Profit for the year		**120**	**31**	**151**

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

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

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

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

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

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

3.4 Standards issued but not yet effective

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

- IAS 1 ‘Presentation of financial statements’
- IAS 19 ‘Employee benefits’;
- IFRS 7 ‘Financial instruments: Disclosures’
- IFRS 9 ‘Financial instruments’
- IFRS 10 ‘Consolidated financial statements’
- IFRS 11 ‘Joint arrangements’
- IFRS 12 ‘Disclosures of interests in other entities’

- IFRS 13 ‘Fair value measurement’
- IAS 27 ‘Separate financial statements’
- IAS 28 ‘Associates and joint ventures’
- Annual improvements May 2012

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

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

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

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

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

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

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

IFRS 13, ‘Fair value measurement’, aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or US GAAP. The

Group is yet to assess IFRS13's full impact and intends to adopt IFRS 13 no later than the accounting period beginning on or after 1 January 2013.

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

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

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

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

4 Financial risk management

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

4.1 Risks associated with clearing transactions

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

4.2 Treasury risk

It is TenneT's policy to minimise the treasury risks that are inherent to its operations. The main treasury risks recognised by TenneT are market risks, credit risks, liquidity risks and refinancing risks. The Treasury Department is responsible for managing the TenneT Group's financial risks.

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

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

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

4.2.1 Market risk

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

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

TenneT TSO is financed almost entirely through intercompany loans from the parent company. The interest cost of the intercompany loans depends on the external financing cost of the parent company. To control the Group's interest rate risk, it is the parent company's policy to ensure that the majority of its loan portfolio is based on fixed interest. This is then also of influence on the interest charged to TenneT TSO. TenneT uses scenarios to analyse its interest rate exposure. A theoretical increase or decrease in interest rates of 200 basis points could create an increase or decrease of EUR 2.4 million in the net interest costs (2011: EUR 4.7 million). There is limited interest risk since the majority of the portfolio is based on fixed interest rates.

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

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

4.2.2 Credit risk

TenneT has a policy for the management of its credit risks. Credit risks arise from TenneT’s transactions and positions with financial institutions. On the balance sheet date, the maximum credit risk amounted to EUR 43 million (2011: EUR 30 million). The credit risk on trade receivables is very limited as all credit risks are compensated in future tariffs.

Concentration limits apply when funds are placed on deposit or when financial derivatives are arranged. The counterparty must have an 'A-' credit rating or higher (2011: 'A'). On the balance sheet date, TenneT had deposited EUR 33 million with third parties (2011: EUR 29.8 million).

4.2.3 Liquidity risk

The liquidity risk is defined as the risk that TenneT cannot meet its short-term financial obligations. TenneT TSO B.V. is financed by TenneT Holding B.V. with a long term credit facility. ;The maximum of this facility has not been defined. The facility matures after 10 years and is automatically extended every year for another year, unless agreed upon otherwise.. As such, the liquidity risk is managed by the parent company of Tennet TSO B.V. The parent company has credit facilities at its disposal to accommodate any fluctuations. The scope of these credit facilities is such that any adverse financial developments and events at TenneT TSO B.V. can be accommodated and continuation of day-to-day operations is ensured. The terms and conditions of these credit facilities include negative pledge and pari passu clauses. No security has been provided. The facilities all have floating-rate interest conditions.

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

Maturity schedule (in EUR million)

31 December 2012	**<1M**	**1M<3M**	**3M<1Y**	**1-5Y**	**>5Y**	**Total**
Liabilities relating to assets at free disposal						
Borrowings	-	-	47	273	1,688	2,008
Accounts payable and other liabilities, excluding interest payable	111	-	-	-	-	111
Total	**111**	**-**	**47**	**273**	**1,688**	**2,119**

Maturity schedule (in EUR million)

31 December 2011	**<1M**	**1M<3M**	**3M<1Y**	**1-5Y**	**>5Y**	**Total**
Liabilities relating to assets at free disposal						
Borrowings	8	12	53	280	1,835	2,188
Accounts payable and other liabilities, excluding interest payable	155	-	-	-	-	155
Total	**163**	**12**	**53**	**280**	**1,835**	**2,343**

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

4.2.4 Refinancing risk

Refinancing risk is defined as the risk that funds cannot be obtained under reasonable conditions on the money or capital market when existing financing arrangements expire. The global credit crisis has focused renewed attention on this risk. In 2012 TenneT TSO B.V. has no significant refinancing risk as the company is financed with intercompany loans from TenneT Holding B.V. with a 10 years maturity, annually rolled forward with a year unless agreed upon otherwise.

4.2.5 Capital Risk Management and Liquidity Risk Management

Capital Risk Management
The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern while providing an adequate return for its shareholder. In order to maintain or adjust the capital structure, the Group may seek for additional capital (e.g. through a capital injection by the Shareholder and/or various capital market transactions), adjust dividends paid to its shareholder or modify its investment plans.

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

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

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

4.2.6 Financial instruments – Fair values

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

		Carrying amount		Fair value	
(in EUR million)	Note	2012	2011	2012	2011
Financial Assets					
Loans and receivables:					
- Account- and other receivables	7.7	753	693	753	693
- (Other) Financial assets	7.5, 7.8	408	399	408	399
Cash and cash equivalents	7.9	40	43	40	43
Total		**1,201**	**1,135**	**1,201**	**1,135**
Financial Liabilities					
Borrowings:					
- Borrowings	7.12	1,490	1,490	1,503	1,490
- Account- and other payables	7.15	25	40	25	40
- Other financial liabilities	7.17	86	115	86	115
Total		**1,601**	**1,645**	**1,614**	**1,645**

Fair value hierarchy
As at 31 December 2012 TenneT holds two financial instruments valued at fair value: available-for-sale financial assets and a USD-EUR foreign exchange swap. TenneT uses the following hierarchy for determining the fair value of these financial instruments by valuation technique:
Level 1: Measurement based on quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2: Measurement based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices)
Level 3: Measurement based on inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs)

As at 31 December 2012 the company held no assets measured at fair value.

5 Segment reporting

For management purposes TenneT management considers the performance of its activities in the Netherlands as a one operating segment. The operating results of this segments are monitored for the purpose of making decisions about resource allocation and performance assessment. The performance is evaluated based on earnings before interest and tax ('EBIT').

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

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

2012 *(in EUR million)*	TenneT TSO IFRS	Adjustments to underlying	TenneT TSO Underlying Information
Assets	**4,022**	**133**	**4,155**
Liabilities	2,201	699	2,900
Equity	1,821	-566	1,255
Equity and liabilities	**4,022**	**133**	**4,155**
Revenue	517	109	626
Depreciation and amortisation	132	-	132
Other costs	256	120	376
EBIT	**129**	**-11**	**118**

2011 *(in EUR million)*	TenneT TSO IFRS	Adjustments to underlying	TenneT TSO Underlying Information
Assets	**3,736**	**67**	**3,803**
Liabilities	1,934	615	2,549
Equity	1,802	-548	1,254
Equity and liabilities	**3,736**	**67**	**3,803**
Revenue	697	-25	672
Depreciation and amortisation	130	-	130
Other costs	333	1	334
EBIT	**234**	**-26**	**208**

6. Items of the consolidated statements of income

6.1 Revenue

Revenue can be broken down as follows:

(in EUR million)	**2012**	**2011**
Connection and transmission services	470	421
System services	-146	144
Operation of energy exchanges	111	66
Maintenance of energy balance	51	36
Other	31	30
Total	**517**	**697**

Connection, transmission and system services
The revenue from connection, transmission and system services is to a large extent regulated by the Office of Energy Regulation in the Netherlands. The revenue from connection and transmission services includes the revenue from services provided to regional grid operators and industrial clients (resolution of transmission restrictions and reactive power management). In 2012 these revenues include the recognition of the provision for system services fees (see note 7.14).

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

Operation of energy exchanges
This amount includes auction revenues consisting of auctioning cross-border interconnection capacity.

Maintenance of energy balance
This amount includes the revenue from maintenance of the energy balance between supply and demand.

6.2. Operating expenses

6.2.1 Energy and capacity expenses

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

(in EUR million)	**2012**	**2011**
System services	56	68
Connection and transmission services	79	68
Maintenance of energy balance	33	32
Total	**168**	**168**

System services
The expenditure associated with system services involves the purchase of regulating and reserve capacity, black-start facilities and emergency capacity.

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

Maintenance of energy balance
This amount includes the costs from maintenance of the energy balance between supply and demand.

6.2.2 Transmission grid and system expenses

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

(in EUR million)	**2012**	**2011**
Costs of maintaining and operating transmission grids	82	71
Systems for primary operating processes	2	2
Other	-	1
Total	**84**	**74**

6.2.3 Personnel expenses

The personnel expenses can be broken down as follows:

(in EUR million)	**2012**	**2011**
Salaries	75	73
Social security contributions	8	7
Pension charges defined contribution plans	10	10
Other personnel expenses	7	3
Capitalised costs for tangible fixed assets	-34	-37
Total	**66**	**56**

In 2012, the average workforce amounted to 1,061 FTEs (2011: 1,061 FTEs). All FTEs were employed in the Netherlands.

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

In thousands of EUR	**Fixed remuneration**	**Variable remuneration**	**Pension contributions**	**Total**
2012	799	196	228	**1,223**
2011	626	125	186	**937**

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

6.2.4 Other losses/(gains) - net

(in EUR million)	**2012**	**2011**
Sale of transformers and pylons	-2	-9
Other gains and losses	-2	-
	-4	**-9**

6.2.5 Other operating expenses

Other operating expenses can be broken down as follows:

(in EUR million)	2012	2011
Accommodation and office expenses	13	11
Consultancy expenses	3	2
Hiring of temporary personnel	15	13
Travel and subsistence expenses	8	8
Other operating expenses	18	13
	57	**47**

Independent auditor’s fees are classified under ‘Other operating expenses’. This concerns the fees charged by PricewaterhouseCoopers Accountants N.V. and other PricewaterhouseCoopers network firms. For the fees further reference is made to the consolidated financial statements of TenneT Holding B.V.

6.3 Finance income and expenses

Finance income
The finance income can be broken down as follows:

(in EUR million)	2012	2011
Interest from participations	11	11
Interest from Shareholder	18	-
Other interest income	2	2
Finance income	**31**	**13**

Finance expenses
The finance expenses can be broken down as follows:

(in EUR million)	2012	2011
Interest expenses borrowings Shareholder	67	67
Interest on assets under construction	-13	-17
Interest on provisions	2	1
Finance expenses	**56**	**51**

For the effective rate of interest on assets under construction and interest on long-term loans, reference is made to note 7.1 respectively 7.12.

7. Items of the consolidated statement of financial position

7.1 Tangible fixed assets

(in EUR million)	High-voltage substations	High-voltage connections	Other assets	Assets under construction	Total
Cost					
At 1 January 2011	1,022	925	773	576	3,296
Additions	177	145	13	-40	295
Transfers	169	481	-643	-7	-
Transfer to intangible assets	-	-	-	-35	-35
Transfer to held for sale	-13	-	-	-	-13
Disposals	-34	-5	-	-	-39
At 31 December 2011	**1,321**	**1,546**	**143**	**494**	**3,504**
Additions	-	-	1	238	239
Transfers	119	90	-29	-180	-
Transfers to intangible assets	-	-	-	-16	-16
Disposals	-	-1	-	-	-1
At 31 December 2012	**1,440**	**1,635**	**115**	**536**	**3,726**
Depreciation and impairment					
At 1 January 2011	457	396	83	5	941
Depreciation for the year	43	55	10	-	108
Impairment reversal	-	-2	-	-	-2
Transfers	15	35	-45	-5	-
Transfer to held for sale	-8	-	-	-	-8
Disposals	-21	-5	-	-	-26
At 31 December 2011	**486**	**479**	**48**	**-**	**1,013**
Depreciation for the year	53	58	-1	-	110
Impairment	-	-	5	-	5
Impairment reversal	-50	-70	-	-	-120
Disposals	-	-	-	-	-
At 31 December 2012	**489**	**467**	**52**	**-**	**1,008**
Net Book value:					
At 1 January 2011	565	529	690	571	2,355
At 31 December 2011	835	1,067	95	494	2,491
At 31 December 2012	951	1,168	63	536	2,718

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

Capitalised borrowing costs
The amount of borrowing costs capitalised during the year ended 31 December 2012 was EUR 13 million (2011: EUR 17 million). The effective interest rate used to determine the amount of borrowing costs eligible for capitalisation was 3.7% (2011: 4.3%).

Contractual commitments
Reference is made to note 8.1.

Impairment
On the basis of an impairment indication, the company engaged an independent valuator to assess the recoverable amount of its headquarter building, which resulted in an impairment of EUR 5 million.

Impairment reversal

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

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

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

7.2 Intangible assets

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

(in EUR million)	Goodwill	Software	Telecom contracts	Other intangible assets	Total
Cost:					
At 1 January 2011	3	26	65	14	108
Additions	-	-	-	-	-
Transfer from tangible fixed assets	-	35	-	-	35
Disposals	-	-2	-	-	-2
At 31 December 2011	**3**	**59**	**65**	**14**	**141**
Transfer from tangible fixed assets	-	16	-	-	16
Disposals	-	-	-1	-	-1
At 31 December 2012	**3**	**75**	**64**	**14**	**156**
Amortisation and impairment					
At 1 January 2011	-	23	8	2	33
Amortisation for the year	-	17	5	-	22
Disposal	-	-2	-	-	-2
At 31 December 2011	**-**	**38**	**13**	**2**	**53**
Amortisation for the year	-	16	5	-	21
At 31 December 2012	**-**	**54**	**18**	**2**	**74**
Net Book value:					
At 1 January 2011	3	3	16	53	75
At 31 December 2011	3	21	52	12	88
At 31 December 2012	3	21	46	12	82

Impairment testing of goodwill

An impairment test was executed. As a result of this analysis, management concluded that no impairment loss was to be recognised.

7.3 Investments in associates

The investments in associates mainly consists of investments held in Holding des Gestionnaires de Réseaux de Transport d'Électricité S.A.S. (hereafter "HGRT"). HGRT holds a 52.8% share in Powernext S.A., a French electricity exchange. TenneT holds a 24.5% share in HGRT and consequently TenneT's indirect share in Powernext S.A. amount to 12.8%. The share in result of HGRT amounted to EUR 0 million (2011: EUR 1 million).

In addition, TenneT TSO B.V. holds a 25% share in Energie Data Services Nederland B.V. (EDSN). EDSN is an innovating and high-end service provider in the area of designing, recording and improving administrative processes and the supporting messaging traffic in the Dutch energy market.

The movement in the investments in associates is as follows:

(in EUR million)	2012	2011
Balance at 1 January	13	11
Share in result	-	2
Balance at 31 December	**13**	**13**

7.4 Income Tax

TenneT TSO B.V. forms a fiscal unity with TenneT Holding B.V. regarding income tax. TenneT TSO B.V. has recognised income tax as if the company is solely liable for income tax.

The major components of income tax expense are:

Consolidated income statement

(in EUR million)	2012	2011
Current income tax:		
Current income tax charge	-27	54
Adjustments in respect of current income tax of previous years	1	-
***Deferred tax*:**		
Relating to origination and reversal of temporary differences	51	-7
Income tax expense reported in the income statement	**25**	**47**

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

(in EUR million)	2012	2011
Accounting profit before income tax	**104**	**196**
At statutory income tax rate of 25% (2011: 25%)	26	49
Adjustments in respect of current income tax of previous years	1	-
Non-taxable income	-2	-2
At the effective income tax rate of 24% (2011: 30%)	**25**	**47**

Deferred tax relate to the following:

(in EUR million)	**Consolidated statement of financial position**			**Consolidated income statement**	
	2012	2011	As at 1 January 2011	2012	2011
Auction receipts	-117	-90	-80	25	12
Investment contributions	-78	-81	-82	-3	-3
Tariffs to be settled	45	-6	-8	-49	-2
Accelerated depreciation for tax purposes	-34	45	33	79	-13
Provisions recognised for tax purposes	5	4	4	-1	-
Receivables and payables	1	1	-	-	-1
Deferred tax expense/(income)				**51**	**-7**
Net deferred tax assets/(liabilities)	**-178**	**-127**	**-134**		

Reconciliation of deferred tax liabilities, net

(in EUR million)	2012	2011
Opening balance as of 1 January	**-127**	**-134**
Tax income/(expense) during the period recognised in profit or loss	-51	7
Closing balance as at 31 December	**-178**	**-127**

The Group offsets tax assets and liabilities if and 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.

7.5 Other Financial assets

The other financial assets can be detailed as follows:

(in EUR million)	2012	2011
Participation in TenneT TSO Germany B.V.	375	375
Total	**375**	**375**

TenneT TSO Germany B.V.
The Foundation for the management of allocated funds from the National High-Voltage Grid (hereafter: 'The Foundation') holds a 10% investment recognised at fair value. In order to protect the allocated funds and to ensure their immediate availability upon request from the Dutch regulator a put- and a call option have been emitted at 25 February 2010. The call option with an exercise price of EUR 375 million and a maturity period of ten years entitles TenneT Holding B.V. to acquire the investment from 'The Foundation'. The put option has an exercise price of EUR 375 million and a maturity period of ten years and requires TenneT Orange B.V. to buy the investment from 'The Foundation' upon offer. The obligation of TenneT Orange B.V. is largely covered by means of a guarantee issued by the Dutch government.

The fair value of the participation amounts to EUR 370 million; the fair values of the options are EUR 5 million for the put option and nil for the call option.

7.6 Inventories

The inventory consists of spare parts amounting to EUR 2 million (2011: EUR 4 million) and work in progress amounting to EUR 2 million (2011: EUR 1 million).

7.7 Account- and other receivables

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

(in EUR million)	2012	2011
Trade receivables	42	114
Amounts to be invoiced	78	28
Amounts due from related parties	15	5
Amounts due from shareholder (effective interest 4.62%)	607	535
Interest receivables	1	1
Other	10	10
Total	**753**	**693**

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

(in EUR million)	2012	2011
Balance at 1 January 2012	-	-
Charge for the year	2	-
Utilised	-	-
Unused amounts reversed	-	-
Total	**2**	**-**

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

(in EUR million)			Past due but not impaired		
	Total	Neither past due nor impaired	0-30 days	31-60 days	>60 days
2012	**42**	10	3	-	29
2011	**114**	102	-	-	12

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

7.8 Current financial assets

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

7.9 Cash and cash equivalents

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

2012 *(in EUR million)*	Collateral securities	Short-term bank deposits	Cash at bank	Total 2012
Funds not at free disposal:				
- Auctioning of capacity	-	-	4	4
- Maintenance of energy balance between supply and demand	30	-	6	36
Funds at free disposal	-	-	-	-
Total at 31 December 2012	**30**	**-**	**10**	**40**

2011 *(in EUR million)*	Collateral securities	Short-term bank deposits	Cash at bank	Total 2011
Funds not at free disposal:				
- Auctioning of capacity	-	-	1	1
- Maintenance of energy balance between supply and demand	36	-	5	41
Funds at free disposal	-	-	1	1
Total at 31 December 2011	**36**	**-**	**7**	**43**

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

7.10 Assets and liabilities classified as held for sale

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

7.11 Equity

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

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

Dividend
In 2012 TenneT distributed a EUR 60 million dividend to the shareholder relating to 2011. The dividend per share amounted to EUR 300. The profit for 2012 is at the free disposal of the General Meeting of Shareholders.

7.12 Borrowings

The borrowings can be broken down as follows:

(in EUR million)	**Effective Interest rate**	**Maturity**	**Redemption schedule ***	**2012**	**2011**
Non-current interest-bearing borrowings					
Loans from Shareholder	4.62%	December 2022		1,415	1,415
Loans from related parties	5.16%	February 2020		75	75
Total non-current interest-bearing borrowings				**1,490**	**1,490**

** In full at maturity date, unless mentioned otherwise*

TenneT TSO B.V. is financed through TenneT Holding B.V. per 31 December 2012 the principal amount of the finance facility between TenneT Holding B.V. and TenneT TSO B.V. amounted to EUR 1,415 million. (2011: EUR 1,400 million); a maximum facility has not been agreed upon. The facility matures after 10 years and is automatically extended every year for another year, unless agreed upon otherwise. The conditions include a cross default clause. The effective interest rate is equal to the interest rate of TenneT Holding B.V. with a surcharge of 0,125%. The Group had no other credit facilities as at 31 December 2012 (2011: nil).

7.13 Deferred income

The deferred income can be broken down as follows:

(in EUR million)	**2012**	**2011**
Investment contributions	119	103
Other	3	1
Total	**122**	**104**

The investment contributions relate to a payment from certain third parties for construction of a new substation, a grid connection or increased capacity for its connection. The payment is recognized as revenue over the related asset's useful life.

7.14 Provisions

The provisions can be broken down as follows:

(in EUR million)	Total 2012		Total 2011	
	Current	Non-current	Current	Non-current
Environmental management and decommissioning	1	17	2	14
System services tariffs	243	-	-	-
Long-service bonuses	-	5	1	5
Other	3	1	-	-
Total	**247**	**23**	**3**	**19**

The movement in the provisions is as follows:

(in EUR million)	Environmental management and decommissioning	System services tariffs	Long-service bonuses	Other	Total
At 1 January 2011	14	-	5	-	**19**
Addition	1	-	1	-	**2**
Imputed interest and discount rate adjustment	1	-	-	-	**1**
At 31 December 2011	**16**	**-**	**6**	**-**	**22**
Addition	1	243	-	6	**250**
Utilization	-	-	-1	-2	**-3**
Imputed interest and discount rate adjustment	1	-	-	-	**1**
At 31 December 2012	**18**	**243**	**5**	**4**	**270**

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

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

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

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

7.15 Account- and other payables

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

(in EUR million)	**2012**	**2011**
Accounts payable	16	37
Payables to group companies	9	3
Total	**25**	**40**

7.16 Other financial liabilities

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

7.17 Other current liabilities

The other current liabilities can be broken down as follows:

(in EUR million)	**2012**	**2011**
Taxation and social security contributions	6	35
To be settled cross border transactions	5	26
Other	75	54
Total	**86**	**115**

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

8. Miscellaneous

8.1 Off-balance sheet rights and obligations

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

(in EUR million)	**2012**	**2011**
Off balance sheet obligations:		
(Long-term) financial obligations	151	150
Obligation for operating leases	91	91
Conditional obligations	18	18
Total off balance sheet obligations	**260**	**259**
Off balance sheet rights:		
Conditional rights	102	100
Government guarantees received	300	300
(Long-term) financial rights	-	16
Total off balance sheet rights	**402**	**416**

(Long-term) financial obligations
At 31 December 2012, external commitments totalling EUR 148 million (2011: EUR 143 million) had been entered into with regard to the purchase of tangible fixed assets. TenneT TSO B.V. has entered into commercial ground lease contracts with the owners of the land on, under or over which TenneT's substations, lines and underground cables are sited or routed. TenneT's annual obligation under these contracts amounts to EUR 2 million (2011: EUR 2 million).

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

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

(in EUR million)	<1 year	1-5 years	>5 years	Total
At 31 December 2012	7	27	57	**91**
At 31 December 2011	6	23	62	**91**

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

Conditional rights
At year-end 2012, TenneT TSO B.V. has received bank guarantees totalling EUR 69 million (2011: EUR 67 million) with respect to prepayments in relation to investment projects. Parties with programme responsibility have issued bank guarantees totalling EUR 33 million (2011: EUR 34 million) to TenneT TSO B.V. in connection with the latter's maintenance of the energy balance between supply and demand.

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

Government guarantees received
A written put option – with an exercise price of EUR 375 million and a term of 10 years – obliges TenneT Orange B.V. to purchase the share from the Stichting Beheer Doelgelden Landelijk Hoogspanningsnet when it is being offered. TenneT Orange B.V.'s obligation is substantially covered by a guarantee issued by the Dutch State for an amount of EUR 300 million.

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

8.2 Related parties

For an overview of legal entities that are included in the consolidated financial statements, reference is made to 2.2 'Basis for consolidation'. Furthermore, the following related parties are part of the TenneT Holding Group:

TenneT Holding B.V., Arnhem
Relined B.V., Utrecht
TenneT Orange B.V., Arnhem
TenneT TSO Duitsland B.V., Arnhem
TenneT Duitsland Coöperatief U.A., Arnhem
TenneT Verwaltungs GmbH, Bayreuth
TenneT GmbH & Co. KG, Bayreuth

- TenneT TSO GmbH, Bayreuth
- TenneT Offshore GmbH, Bayreuth
- TenneT Offshore 1. Beteiligungsgesellschaft GmbH, Bayreuth
- TenneT Offshore 2. Beteiligungsgesellschaft GmbH, Bayreuth
- TenneT Offshore 4. Beteiligungsgesellschaft GmbH, Bayreuth
- TenneT Offshore 7. Beteiligungsgesellschaft GmbH, Bayreuth
- TenneT Offshore 8. Beteiligungsgesellschaft GmbH, Bayreuth
- TenneT Offshore 9. Beteiligungsgesellschaft GmbH, Bayreuth
- TenneT Offshore 10. Beteiligungsgesellschaft GmbH, Bayreuth
- TenneT Offshore 11. Beteiligungsgesellschaft GmbH, Bayreuth
- DC Netz Beteiligungs GmbH, Bayreuth
- DC Netz GmbH, Bayreuth
- DC Netz BorWin3 GmbH, Bayreuth
- DC Netz BorWin4 GmbH, Bayreuth
- DC Netz BorWin5 GmbH, Bayreuth
- DC Netz SylWin2 GmbH, Bayreuth
- DC Netz DolWin3 GmbH, Bayreuth
- DC Netz DolWin4 GmbH, Bayreuth
- DC Netz HelWin1 GmbH, Bayreuth

TransTenneT B.V., Arnhem
TenneT Blue B.V., Arnhem
APX-ENDEX Holding B.V., Amsterdam

- APX-ENDEX Power B.V., Amsterdam
- APX-ENDEX Gas B.V., Amsterdam
- APX Commodities Ltd., Nottingham, UK
- APX-ENDEX Clearing B.V., Amsterdam
- APX-ENDEX Derivatives B.V., Amsterdam
- Belpex S.A., Brussels, Belgium

NOVEC B.V., The Hague

- Omroepmasten B.V., Vianen
- Duvekot Rentmeesters B.V., Bathmen

NLink International B.V., Arnhem

- BritNed Development Ltd., London, UK

In addition, the following related parties are identified:

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

Open Tower Company B.V.
Open Tower Company B.V. is deemed a related party because it is an indirect participation of the parent company.

Mobile Radio Networks Vehicle B.V.
Mobile Radio Networks Vehicle B.V. is deemed a related party because it is an indirect participation of the parent company.

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

8.3 Board remuneration
The board remuneration is broken down in note 6.2.3.

8.4 Ratios

TenneT TSO B.V. is required by law to disclose information regarding the following (solvency) ratio's at the end of every financial year:

Ratio	Requirement	2012	2011 revised	2011 as reported
A	≥ 1.7	1.9	3.4	3.1
B	≥ 2.5	6.7	5.0	4.5
C	≥ 11%	18%	14%	14%
D	≤ 70%	55%	52%	57%

The above mentioned ratio's are calculated as follows:

A: operating profit divided by the gross finance expenses on loans

B: the sum of net profit, depreciation, amortisation, deferred taxes, other non monetary costs (movement provisions) and gross finance expenses divided by the gross finance expenses

C: the sum of net profit, depreciation, amortisation, deferred taxes, other non monetary costs (movement provisions) divided by the total liabilities

D: the total liabilities divided by the sum of total liabilities and equity including minority interest and preference shares

8.5 Events after the balance sheet date

No events after the balance sheet date requiring disclosure have occurred.

COMPANY FINANCIAL STATEMENTS TENNET TSO B.V. 2012

Company statement of financial position at 31 December (before profit appropriation)
(in EUR million)

Assets	Note	2012	2011
Non-current assets			
Intangible assets	10.1	30	34
Tangible fixed assets	10.2	1,784	1,600
Investments in subsidiaries	10.3	1,001	1,001
Investments in associates	10.4	13	13
Other financial assets	10.5	529	414
Total non-current assets		**3,357**	**3,062**
Current assets			
Inventories	10.6	4	5
Account- and other receivables	10.7	783	697
Cash and cash equivalents	10.8	30	37
Total current assets		**817**	**739**
Total assets		**4,174**	**3,801**

Company statement of financial position at 31 December (before profit appropriation)
(in EUR million)

Equity and liabilities	Note	2012	2011
Equity	10.9	**1,821**	**1,802**
Non-current liabilities			
Borrowings	10.10	1,415	1,415
Deferred income	10.11	86	82
Deferred tax liability	10.12	191	152
Provisions	10.13	23	19
Total non-current liabilities		**1,715**	**1,668**
Current liabilities			
Account- and other payables	10.14	271	178
Other financial liabilities	10.15	30	36
Provisions	10.13	247	3
Other liabilities	10.16	90	114
Total current liabilities		**638**	**331**
Total equity and liabilities		**4,174**	**3,801**

Company statement of income for the year 2012

(in EUR million)

	2012	2011
Profit TenneT TSO B.V. after income tax	79	153
Result from Group companies after income tax	-	-2
Profit for the year	**79**	**151**

Notes to the company financial statements

9 Summary of accounting policies applied

9.1 General basis for preparation

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

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

9.2 Investments in subsidiaries

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

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

10 Items of the company statement of financial position

10.1 Intangible assets

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

(in EUR million)	Software	Other intangible assets	Intangible assets under construction	Total
Cost:				
At 1 January 2011	23	14	-	37
Additions	35	-	-	35
At 31 December 2011	**58**	**14**	**-**	**72**
Additions	-	-	-	-
Transfer from tangible fixed assets	13	-	13	13
At 31 December 2012	**71**	**14**	**-**	**85**
Amortisation and impairment				
At 1 January 2011	19	2	-	21
Amortisation for the year	17	-	-	17
At 31 December 2011	**36**	**2**	**-**	**38**
Amortisation for the year	16	1		17
At 31 December 2012	**52**	**3**	**-**	**55**
Net Book value:				
At 1 January 2011	4	12	-	16
At 31 December 2011	22	12	-	34
At 31 December 2012	19	11	-	30

10.2 Tangible fixed assets

(in EUR million)	High-voltage substations	High-voltage connections	Other assets	Assets under construction	Total
Cost					
At 1 January 2011	689	639	65	575	1,968
Additions	25	10	-	-10	25
Transfers	119	95	10	-72	152
Disposals	-1	-5	-	-	-6
At 31 December 2011	**832**	**739**	**75**	**493**	**2,139**
Additions	51	17	16	153	237
Transfers to subsidiaries	-	-	-	-97	-97
Transfers to intangible assets	-	-	-	-13	-13
At 31 December 2012	**883**	**756**	**91**	**536**	**2,266**
Depreciation and impairment					
At 1 January 2011	246	218	22	5	491
Depreciation for the year	26	24	6	-	56
Impairment reversal	-	-2	-	-	-2
Transfers	-	5	-	-5	-
Disposals	-1	-5	-	-	-6
At 31 December 2011	**271**	**240**	**28**	**-**	**539**
Depreciation for the year	28	23	7	-	58
Impairment	-	-	5	-	5
Impairment reversal	-50	-70	-	-	-120
At 31 December 2012	**249**	**193**	**40**	**-**	**482**
Net Book value:					
At 1 January 2011	443	421	43	570	1,477
At 31 December 2011	561	499	47	493	1,600
At 31 December 2012	634	563	51	536	1,784

10.3 Investments in subsidiaries

The movement in the investments in subsidiaries is as follows:

(in EUR million)	2012	2011
Balance at 1 January	1,001	1,003
Share in result	-	-2
Balance at 31 December	**1,001**	**1,001**

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

10.4. Investments in associates

For the movements in investments in associates we refer to the consolidated financial statements (note 7.3).

10.5 Other financial assets

The other financial assets can be broken down as follows:

(in EUR million)	2012	2011
Receivables from subsidiaries	529	414
Total	**529**	**414**

The receivables from subsidiaries comprise intercompany receivables from the group companies included in the consolidated financial statements. A list of these companies can be found under note 2.2 of the consolidated financial statements. The agreed interest rates on the receivables are floating between EONIA -0.05% and EONIA+0.55%.

10.6 Inventories

The inventory consists of spare parts amounting to EUR 2 million (2011: EUR 4 million) and work in progress amounting to EUR 2 million (2011: EUR 1 million).

10.7 Account- and other receivables

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

(in EUR million)	2012	2011
Receivables from related parties and subsidiaries	47	13
Receivables from shareholder (effective interest 4.62%)	607	535
Trade receivables	42	114
Amounts to be invoiced	78	27
Other	9	8
Total	**783**	**697**

10.8 Cash and cash equivalents

The cash and cash equivalents consist of collateral securities amounting to EUR 30 million (2011: EUR 37 million).

10.9 Equity

The statement of changes in equity and disclosure to that statement are included in the consolidated financial statements.

In addition to the statement of changes in equity, a legal reserve was formed within shareholder equity for a revaluation reserve of EUR 107 million (2011: EUR 117 million). 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 revaluation reserve and the reserve for participating interests are not freely distributable.

10.10 Borrowings

For the disclosures regarding the borrowings we refer to the consolidated financial statements (note 7.12).

10.11 Deferred income

The deferred income can be broken down as follows:

(in EUR million)	2012	2011
Investment contributions	85	81
Other	1	1
Total	**86**	**82**

10.12 Deferred tax liability

Deferred taxes relate to the following:

(in EUR million)	Company statement of financial position		
	2012	**2011**	**As at 1 January 2011**
Auction receipts	-117	-90	-80
Investment contributions	-78	-81	-82
Tariffs to be settled	45	-5	-7
Accelerated depreciation for tax purposes	-46	20	8
Provisions recognised for tax purposes	5	4	4
Net deferred tax assets/(liabilities)	**-191**	**-152**	**-157**

10.13 Provisions

For the movements in provisions we refer to the consolidated financial statements (note 7.14).

10.14 Account- and other payables

The account- and other payables are detailed as follows:

(in EUR million)	**2012**	**2011**
Payables to subsidiaries	255	143
Accounts payable	16	35
	271	**178**

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

10.15 Other financial liabilities

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

10.16 Other liabilities

The other liabilities are detailed as follows:

(in EUR million)	**2012**	**2011**
To be settled cross border transactions	5	26
Taxation and social security contributions	6	35
Other	79	53
Total	**90**	**114**

11 Miscellaneous

11.1 Related parties

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

11.2 Key management compensation

The key management compensation is broken down in note 6.2.3 of the consolidated financial statements

11.3 Signing of the financial statements

Arnhem, 22 March 2013

Management Board TenneT TSO B.V.

J.M. Kroon [1)]

E.T.A. de Boer [1)]

B.G.M. Voorhorst [1)]

A.A. Hartman

[1)] Statutory director

12 Other information

Profit appropriation

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

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

Dividend proposal

The Management Board proposes to pay a dividend of EUR 30 million and add the remainder of EUR 49 million of the profit for the financial year 2012 to the other reserves.

Events after the reporting period

No events after the balance sheet date requiring disclosure have occurred.

Independent auditor's report

The independent auditor's report is included on the next page.

Independent auditor's report

To: the Shareholder of TenneT TSO B.V.

Report on the financial statements

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

Management Board’s responsibility

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

Auditor’s responsibility

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

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

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

Opinion with respect to the consolidated financial statements

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

Opinion with respect to the company financial statements

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

Report on other legal and regulatory requirements

Pursuant to the legal requirement under Section 2: 393 sub 5 at e and f of the Dutch Civil Code, we have no deficiencies to report as a result of our examination whether the Report by the Management Board, to the extent we can assess, has been prepared in accordance with Part 9 of Book 2 of this Code, and whether the information as required under Section 2: 392 sub 1 at b-h has been annexed. Further we report that the Report by the Management Board, to the extent we can assess, is consistent with the financial statements as required by Section 2: 391 sub 4 of the Dutch Civil Code.

Arnhem, 22 March 2013
PricewaterhouseCoopers Accountants N.V.
Original has been signed by drs. C.J.A.M. Romme RA