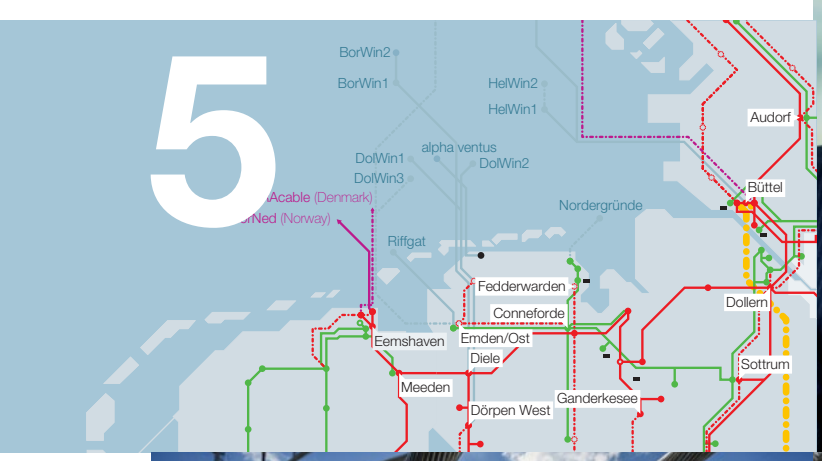
TenneT
Taking power further

Enabling the change

Integrated Annual Report 2015
TenneT Holding B.V.



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TenneT at a glance

Profit for the year (EUR million)

681

Green bonds

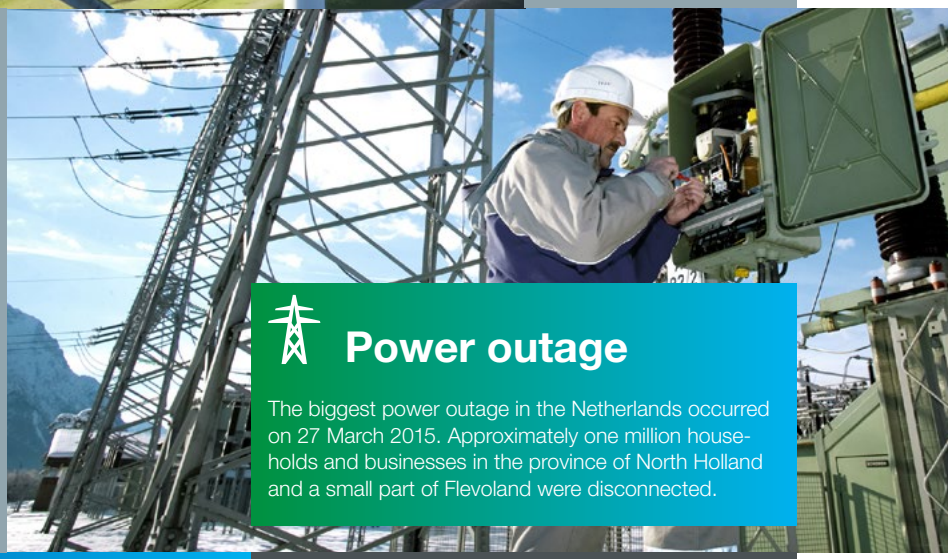
TenneT is the first Dutch non-financial company to issue euro green bonds, leading the way in a new form of financing for a more sustainable future and supporting responsible investment.

LTIF

2.2

Revenue (EUR million)

3,290



Power outage

The biggest power outage in the Netherlands occurred on 27 March 2015. Approximately one million households and businesses in the province of North Holland and a small part of Flevoland were disconnected.

Brand values

Responsible

Engaged

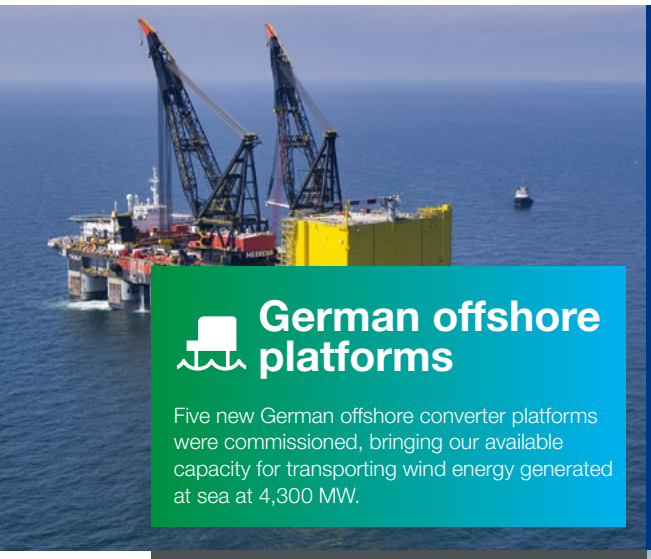
Connected

End users

41,000,000

Number of employees

2,974



German offshore platforms

Five new German offshore converter platforms were commissioned, bringing our available capacity for transporting wind energy generated at sea at 4,300 MW.

Investments (EUR million)

2,405

Total connected offshore windparks

11

Carbon footprint (tonnes CO_2e)

2,192,187

Kilometres grid

22,245

Dutch offshore grid

The Dutch Minister of Economic Affairs announced his intention to appoint TenneT as the developer and operator of offshore grid connections in the Dutch part of the North Sea and will connect 3,450 MW of wind power to the onshore high-voltage grid in the years up to 2023.

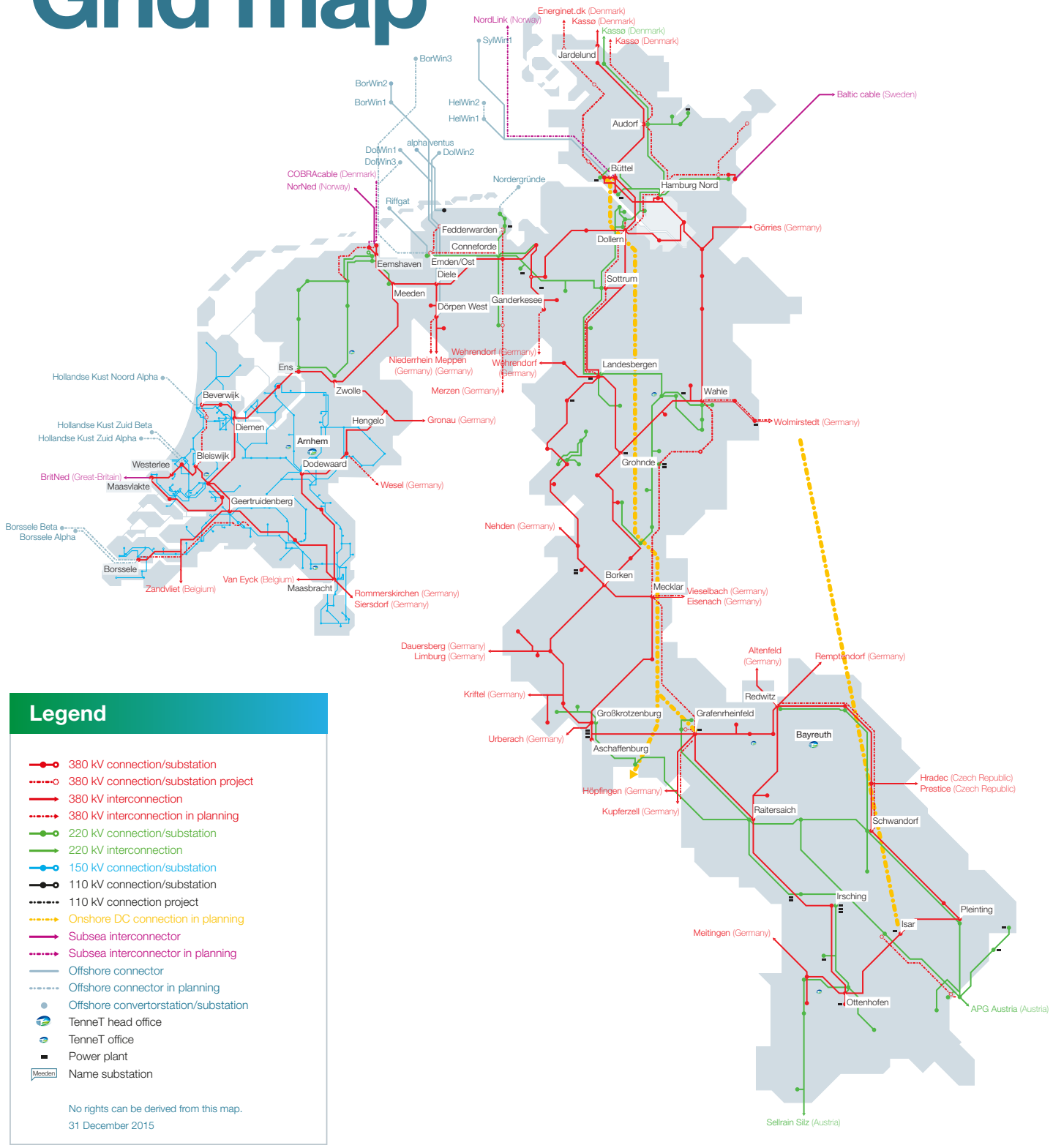
Grid availability (%)

99.9975

Flow-based market coupling

The introduction of a market mechanism called Flow-Based Market Coupling has increased the efficiency of the European electricity market.

Grid map



Legend

- 380 kV connection/substation
- 380 kV connection/substation project
- 380 kV interconnection
- 380 kV interconnection in planning
- 220 kV connection/substation
- 220 kV interconnection
- 150 kV connection/substation
- 110 kV connection/substation
- 110 kV connection project
- Onshore DC connection in planning
- Subsea interconnector
- Subsea interconnector in planning
- Offshore connector
- Offshore connector in planning
- Offshore convertorstation/substation
- TenneT head office
- TenneT office
- Power plant
- Meeden Name substation

No rights can be derived from this map.
31 December 2015

Profile

About TenneT

TenneT is a leading European electricity transmission system operator (TSO), with activities in the Netherlands and in Germany. We strive to ensure a reliable and uninterrupted supply of electricity in our high-voltage grid for some 41 million people. In doing so, we make every effort to meet our stakeholders' needs by being responsible, engaged and connected.

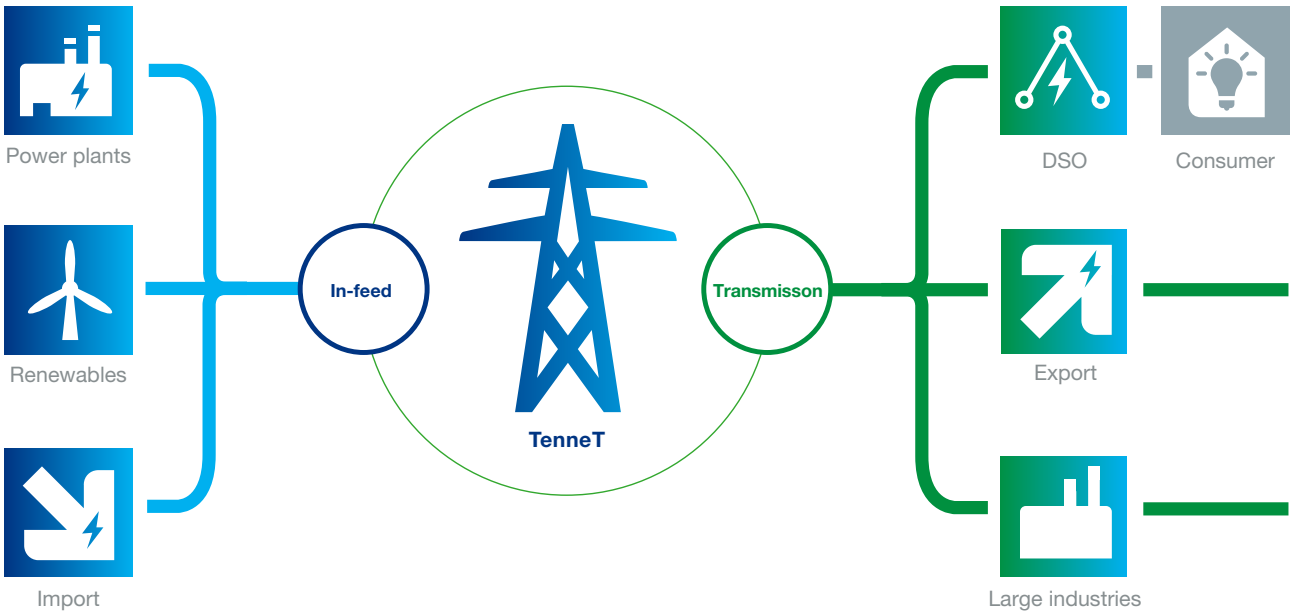
With around 22,000 kilometres of high-voltage lines, we cross borders and connect countries. TenneT ranks among Europe's top five TSOs and works closely with governments, Non-Governmental Organisation (NGOs), suppliers and investors all over the world. Our aim is to ensure that essential high-voltage infrastructure is developed, realised and managed efficiently, now and in the future. This covers onshore and offshore grids, as well as cross-border interconnections. We are keen to pursue the further development of the North West European (NWE) electricity market.

TenneT in the supply chain

TenneT operates as a key player in the electricity supply chain. This chain consists of producers of electricity from both conventional and renewable energy sources, grid companies that transmit electricity (including TenneT), electricity suppliers, customers (industrial and small-scale users) and Pro-sumers (energy consumers acting as producers).

TenneT's high-voltage grid is connected to regional and local distribution grids managed by various other grid companies (so-called Distribution System Operators, DSOs) and directly to large industrial customers.

TenneT in the supply chain



Business model

Virtually all of TenneT's activities are regulated. These activities are governed by relevant legislative and regulatory provisions in the Netherlands and Germany. Regulatory authorities, Autoriteit Consument & Markt (ACM) and Bundesnetzagentur (BNetzA) oversee TenneT's compliance with these provisions. TenneT's regulated activities are managed on country level by two operating segments TSO Netherlands and TSO Germany.

We are primarily tasked with providing power transmission services, system services and facilitating the energy market. Our core tasks follow from our appointment as grid operator under the Dutch 'Elektriciteitswet' (E-wet) and the German 'Energiewirtschaftsgesetz' (EnWG).

Transmission services

TenneT builds and maintains the high-voltage grid that is used to transport large quantities of electricity in the Netherlands and in a large part of Germany. The high-voltage grid functions as the 'highway' of electricity transmission and connects to the lower voltage grids of DSOs and to certain large industry users. TenneT also builds and maintains several cross-border interconnectors with neighbouring countries.

System services

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

Facilitating the energy market

TenneT's third task is to facilitate a smoothly functioning, liquid and stable electricity market and to support the large-scale transition to renewables. As one of the largest TSOs in Europe, we play a leading role in shaping this market. Taking up this role is important to fulfil our strategic objective to have a fully integrated NWE market, improved security of supply, efficient use of interconnector capacity and an integrated wholesale price for electricity. Market parties and consumers benefit from an integrated European electricity market.

Non-regulated activities

TenneT is involved in certain limited non-regulated activities, which help to ensure the energy market operates smoothly and efficiently, or are ancillary to it. As such, TenneT holds a 50% interest in BritNed, a merchant cable operator that manages the electricity interconnector between the Netherlands and Great Britain. TenneT also owns 100% of NOVEC and has a 50% stake in Relined; these companies manage infrastructure to send and receive broadcasting and telecom signals. Furthermore, TenneT (indirectly) holds a 17% share in EPEX Spot SE (EPEX), the NWE (including Great Britain) electricity exchange.

Values

Brand values

By setting brand values, we make a promise to the outside world. We show how we want to meet the needs of stakeholders and how we want them to see us.

Responsible

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

Engaged

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

Connected

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

Core values

Our core values are unconditional and non-negotiable principles that set out clear guidelines for our behaviour. They are embedded in our corporate culture in order to ensure that quality and integrity are the basis for our actions.

Quality

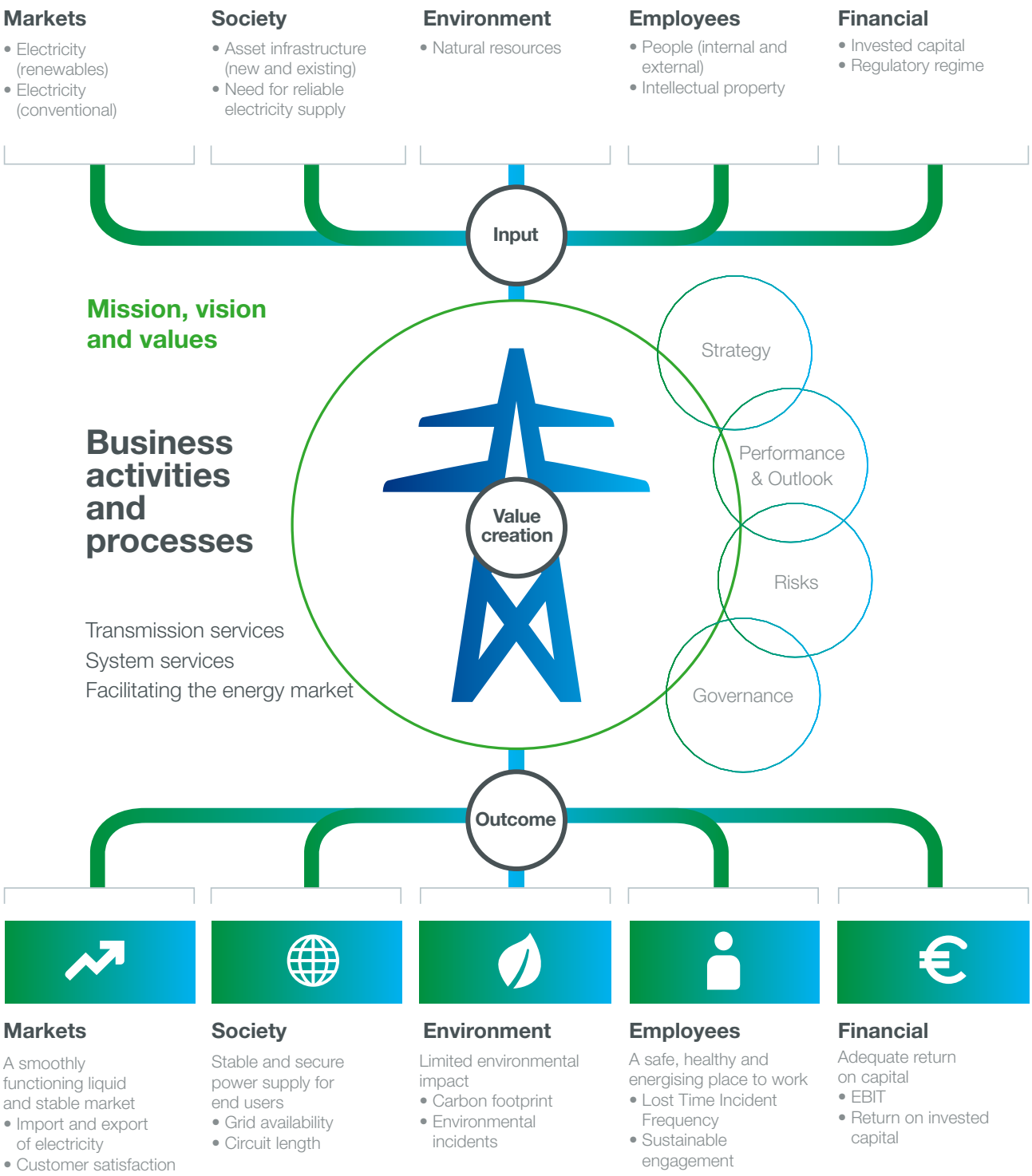
Quality guides us in everything we do, as we work to meet the need for uninterrupted electricity at a reasonable price. We apply the highest safety standards, and work as efficiently as possible.

Integrity

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

Value creation model

The input we use to achieve our strategic goals and the value we add through our main activities are summarised in the value creation model below. The structure of this report follows the value creation flows as shown in this model.



Mel Kroon
CEO and Chair of
the Excecutive Board

Letter from the CEO

Enabling the change

The energy transition is fundamentally changing the European landscape. Physically we can see more wind turbines on land and sea, and a growing number of homes and offices with solar panels. On a small scale, home owners with solar panels are turning from energy consumers also into producers (so-called 'Pro-Sumers'). On a larger scale, the introduction of wind and solar power means the availability of electricity – and therefore price – will increasingly depend on the weather. When there is wind or sun electricity will be plentiful and when there is none it will be more expensive. Prices will fluctuate stronger. The integration of renewable energy into the grid, and maintaining a stable and reliable supply, also pose a formidable technical challenge.

The electricity market driven by natural forces is more complex and demands a fundamentally new design. The current model in Germany, which is largely based on subsidy schemes, is not sustainable, if neither demand and now also supply is driven by price. Electricity markets must adapt their design to the volatility of renewables to ensure there is always enough electricity to meet demand, whatever the weather conditions, at a cost that is acceptable to society. In our opinion, a market in which participants only pay for electricity itself and not for capacity, such as Germany is considering, is most suited to renewables.

It will be impossible to fix prices for any length of time, as is currently the case. The markets will move more and to a real time market. Variable wholesale prices will be passed through to consumers, who will have to learn to tailor their electricity use to a fluctuating energy supply. Already, large-scale electricity users who buy their energy direct from the energy exchange are benefitting from variable prices. As technology develops, smart internet-based tools can help consumers at home to determine when it is most cost effective to use appliances, and when they should power off – or switch to battery-stored energy.

Security of supply

The extent to which society depends on electricity was clearly illustrated by the impact of a power outage in Amsterdam and the province of Noord-Holland at 9:35 AM on 27 March 2015, which was caused by a short circuit on the 380 kV substation in Diemen. Outages such as this are very rare in the Netherlands and Germany, testament to the reliability of our grid, but when they do occur impact society, our employees personally and our organisation as whole immensely. Despite this major power failure, our grid availability is still very close to 100%, namely 99.9975%. But it underlines just how much people and businesses in this part of the world take electricity for granted and reinforces the necessity of investing in our grid to keep electricity flowing. For example a new high-voltage connection we are building between Bleiswijk and Beverwijk (north west of Amsterdam), will not only add additional transport capacity in this densely populated area, but its ring structure reduces the impact of another outage as occurred in Diemen.

Investing in the future

Wind power, especially, is often generated in areas far away from where it is used, for example out at sea. This requires new, high-tech infrastructure to bring it onto land and into the factories and homes which are powered by it. It also requires a larger, multi national grid with more capacity to handle the additional electricity flowing into it from these new producers, including individuals who produce their own solar power at home. It requires more data analysis and insight to balance the supply with the demand. It also requires flexibility to deal with excess power. What do we do, for example, with electricity generated during a late-night storm when demand is low? One way is by connecting markets and countries so that the renewable electricity can flow across borders, securing the balance and thereby increasing security of supply. We see an integrated electricity market as a key enabler of the energy transition and therefore regard it as one of our strategic priorities. As such, it is vital that we build new connections linking the Netherlands and Germany, as well as other neighbouring countries.

The sharp rise in renewable energy sources across Europe highlights the necessity of creating a grid without borders, which enables peak electricity flows to be spread across a wider area. In this respect we highly value the acquisition of TenneT's German grid at the start of the decade, which has brought more advantages for our end users, in terms of lower energy prices, lower system operations costs and higher grid stability, than 20 years of cooperative efforts before.

TenneT made great strides in 2015. The Dutch government announced its intention to appoint us to design and manage an offshore grid that will make 3,450 MW of renewable wind energy available for the Netherlands by 2023. In Germany, we installed five new direct current (DC) offshore connection systems bringing our available capacity for transporting wind energy generated at sea to 4,300 MW – powering millions of households with green electricity. We played a leading role in the introduction of flow-based market coupling in NWE electricity markets, bringing prices even closer together, two new interconnector-projects are in development to connect Germany to Norway (NordLink) and the Netherlands to Denmark (COBRA cable) for greater security of supply and to allow for more distribution of renewable energy in the NWE area.

We expect to invest at least EUR 22 billion in onshore and offshore grid infrastructure to realise the energy transition over the next ten years, which includes additional investments in underground DC cables in Germany following the German government's decision hereon. This extra capacity will relieve grid congestion, for example on windy days, and will transport energy further afield to where it is needed. It will ensure a steady supply of renewable energy across Europe in general, and in our markets in particular, and converge the electricity prices between the different European countries, ultimately making electricity cheaper for end users.

The Dutch government had prepared a new energy bill, STROOM, which was rejected by the Dutch Senate in late December because of concerns about the unbundling of Eneco and Delta. As STROOM also included the official appointment of TenneT as offshore grid operator, the Senate's decision could delay the completion of the first grid connection for offshore wind farms off the Dutch coast near Borssele. The Ministry of Economic Affairs has prepared a new bill which is intended to become effective in early 2016.

In the meantime, we will continue to make the necessary preparations for the offshore connections, including the application for licences.

Innovation

Innovation is another crucial factor to enhance the further development of a robust electricity system. For example, we are testing the use of high temperature superconducting cables (HTSC) underground, which can carry 3 to 5 times more power than conventional cables. The outcome of our Dutch trial – the longest stretch of 'super cabling' in the world – will be essential for developing electricity transport capacity in the future, particularly in densely populated areas. We are also exploring battery-based storage options that will help enhance grid reliability, flexibility and efficiency and we are engaged in several pilot projects funded by the German government to make enhanced use of data to create a smarter grid.

To help fund our large investment portfolio, TenneT issued green bonds and therewith raising EUR 1 billion from investors wanting to support sustainable projects that will benefit society. Green bonds form an attractive source of funds to TenneT to finance the energy transition.

Stakeholders

It is of utmost importance to us that we really involve the people and communities that will be most impacted by our activities. Understanding how our projects benefit society helps them to accept the consequences. This collaborative approach has bolstered our reputation, according to a study we conducted among our stakeholders in 2015. It shows we are succeeding in our mission to deliver value for them. This is largely thanks to the efforts of our committed employees. I am immensely proud of the progress TenneT has made in the last years, something which comes from our employees' their hard work and dedication.

Engaging our people

Our people are proud to work at TenneT. Their commitment and dedication to our mission and our goals is crucial to our ongoing success. To empower our employees to perform we have identified four key development areas. These are talented employees, inspiring leaders, stimulating climate, and teamwork for excellence.

Lian Krijger, Senior Manager HR

"Our annual employee survey shows we are on track to becoming a sought after employer in the European energy sector. Sustainable engagement is higher than ever and for the first time we rank firmly among the top companies to work for."

Svenja Wicht, German Works Council, Bamberg

"As a member of the works council I follow TenneT's HR organization activities critically and attentively. Through my role as spokes-woman for the Personnel Committee Bamberg I could support and assist the positive changes in terms of growth and development. Thus, the company was able to continue its successful path, which is expressed by the continuing high employee satisfaction."

Stakeholder dialogue

Given TenneT's vital role in society to keep electricity flowing in our markets, what we do matters to a wide range of stakeholders. These include our shareholder, the general public, NGOs, politicians, regulators, investors, the media, our customers, our suppliers and our employees. We update different stakeholders on our activities, inform them of our plans, listen to them and address their concerns as best we can.

Governments, political parties and regulatory bodies | Local communities | Media | Customers | Other European TSOs

Suppliers | Non-Governmental Organisation (NGOs) | Employees | Shareholder | Financial investors and rating agencies

To create value for our stakeholders, we have to understand their expectations and needs. We do this by interacting with them regularly and transparently across various platforms. To gauge whether we are on the right track, we measure our performance through our annual customer satisfaction survey, bi-annual employee survey and a reputation survey, the latter we conducted for the first time in 2015. The results of the reputation survey show that TenneT is generally well regarded in both the Netherlands and Germany, although for different reasons. Our image In the Netherlands has improved, as the public perceives TenneT to be more open to considering the interests of stakeholders around us. In Germany, our stakeholders appreciate our efforts to bring about the energy transition.

Stakeholder activities in 2015

We report our activities with stakeholders in the same strategic areas as the rest of the report: market, society, environment, employees and financial. Some stakeholders play a role in more than one of these areas. For example we interact with NGOs in market and environment, and with our shareholder and politicians in society and market.

Stakeholder	Strategic goal	Type of dialogue	What we discussed and achieved in 2015	Priorities for 2016
Society				
Governments, political parties and regulatory bodies	Engage stakeholders	Informative and close involvement	The energy policy & legislation and information about our activities: • Monitored and delivered input on the development of the rejected legislation (STROOM) and the proposed development of offshore wind in the Netherlands. • Monitored and delivered input on the electricity market design process in Germany. • Advisory around proposals for a new German law focused on underground cabling and the grid development plan. • Had talks with the government of Lower Saxony (DE) to work towards an implementation agreement.	• Work closely with the Ministries of Economic Affairs to further develop the energy report and policy document (including an evaluation of the energy agreement). • Collaborating with the Ministry of Economic Affairs on the new draft law on an offshore grid and other new legislation, with topics which are part of the rejected legislation (STROOM). • Influence the decisions of the regulator for the new regulatory periods. • Cooperate with provincial authorities on the implementation of wind onshore and other issues concerning TenneT.
Local communities	Engage stakeholders	Informative and close involvement on various projects	The energy transition combined with the need for a security of supply while minimising our impact on people and the environment: • Involved and informed communities and other local stakeholders impacted by onshore and offshore projects in the Netherlands. • Intensified the proactive dialogue with stakeholders in Germany on several projects, including the SuedLink project.	• Increase the use of social and online media in the Netherlands during the construction phase in cooperation with contractors in the Netherlands. • Actively involve stakeholders already in the planning process. • Conduct quantitative and qualitative research into our communication activities for several projects. • Keep the high level dialogue and participation in new large onshore projects too.
Media	Engage stakeholders	Close involvement	Virtually all TenneT-related subjects, illustrating our relevance to society: • Secured media understanding of our role as a European TSO and emphasised the importance of an integrated European energy market. • Started social media campaing to gain better access to media and various stakeholder groups.	• Make the media understand our strategic objectives.

Stakeholder	Strategic goal	Type of dialogue	What we discussed and achieved in 2015	Priorities for 2016
Markets				
Customers	Security of supply and innovate business	Informative, close involvement in various areas and contractual agreements	How to create and facilitate efficient, integrated and sustainable markets: • Developed and implemented legislation, contracts and grid requirements for offshore wind (the Netherlands). • Commissioned five DC offshore grid connections to connect offshore wind farms in Germany. • Implemented flow-based market coupling in the NWE region.	• Revise the exchange of data in the electricity market. • Engage with new market participants such as aggregators. • Implement the German revised energy-only market design with a special focus on reserves and the balancing pricing mechanism.
Other European TSOs	Leading the development of an integrated and sustainable NWE electricity market	Close involvement	• Secured a key role in international TSO organisation (TSCNET), the new services company for European transmission system operators. • Mr Voorhorst, TenneT's Chief Operating Officer, joined the ENTSO-E board as vice-chair. • Contributed to the development of European network codes as part of ENTSO-E.	• Implementation of the European network codes. • Contribute to the new 10-year grid development plan.
Suppliers	Security of supply and innovate business	Market consultation, meetings and negotiations	Further standardisation to improve efficiency in particular in terms of quality, costs and compliance: • Implementation of a supplier performance management scheme. • Introduction of a mandatory supplier code of conduct by TenneT, based on the UN Global Compact Principles to ensure high CSR standards at all suppliers. • Became a member of UN Global Compact.	• Implement safety and CSR as part of selecting suppliers and awarding tenders. • Broaden the supplier base while supporting long-term partnerships.
Environment				
Non-governmental organisation (NGOs)	Engage stakeholders to safeguard the position of TenneT and guarantee our license to operate	Informative, cooperative, consulting and involvement on project level	• Monitored developments and sought support for key issues such as the need for grids, and biodiversity. • Continued cooperation on SuedLink through the Renewables Grid Initiative and the EU-funded project Best Grid.	• Seek broader support and cooperation on projects, biodiversity, and the need for grids.
Employees				
Employees	Engage stakeholders and innovate business	Close involvement	Sustainable engagement, leadership and safety: • International strategic staff planning and implementation of a development programme for project managers of large infrastructural projects. • Greatly improved scores in our employee survey on safety awareness and leadership.	• Intensify our focus on continuously improving internal processes and performance culture in our Power to Perform programme. • Introduce our Always Energy programme to further improve the health and vitality of our employees.

Stakeholder	Strategic goal	Type of dialogue	What we discussed and achieved in 2015	Priorities for 2016
Financial				
Shareholder	Deliver shareholder value to safeguard position and adequate return on invested capital	Close involvement	TenneT's strategy, operational and financial performance, investments and financing plans: • Approval of investment proposals for large onshore and offshore projects. • TenneT's medium-term capital requirements and proposed dividend policy. • Governance matters, such as board appointments, remuneration and revision of TenneT's articles of association.	• Obtain shareholder approval for investments in several large onshore and offshore projects. • Obtain additional equity capital for financing of Dutch investment portfolio.
Financial investors and rating agencies	Deliver shareholder value	Close involvement and contractual agreements	Base investment decisions (equity and debt) and rating opinions: • Maintained our A-/ A3 credit rating and maintained our top 25% industry-recognised CSR rating. • Issued green bonds, leading the way in a new form of financing.	• Maintain our A-/ A3 credit rating and our top 25% industry-recognised CSR rating. • Negotiate and arrange additional financing in the banking and debt capital markets.

Materiality analysis

Our stakeholder dialogues help us identify the topics they find most relevant. To define the content for this year's report we assessed our interests and those of our stakeholders and analysed our most significant impact. The materiality analysis is fundamental to integrated reporting as it ensures we meet the level of transparency our stakeholders have the right to expect. The fact that we report on selected topics that are material to our business does not mean we do not manage other non-reported aspects. Our CSR policy and activities are broader and are not limited to the outcome of the materiality analysis.

We carried out our materiality analysis according to the GRI G4 guidelines for sustainability reporting. We translated the generic aspects of GRI into topics that are relevant to TenneT, such as grid losses and community engagement.

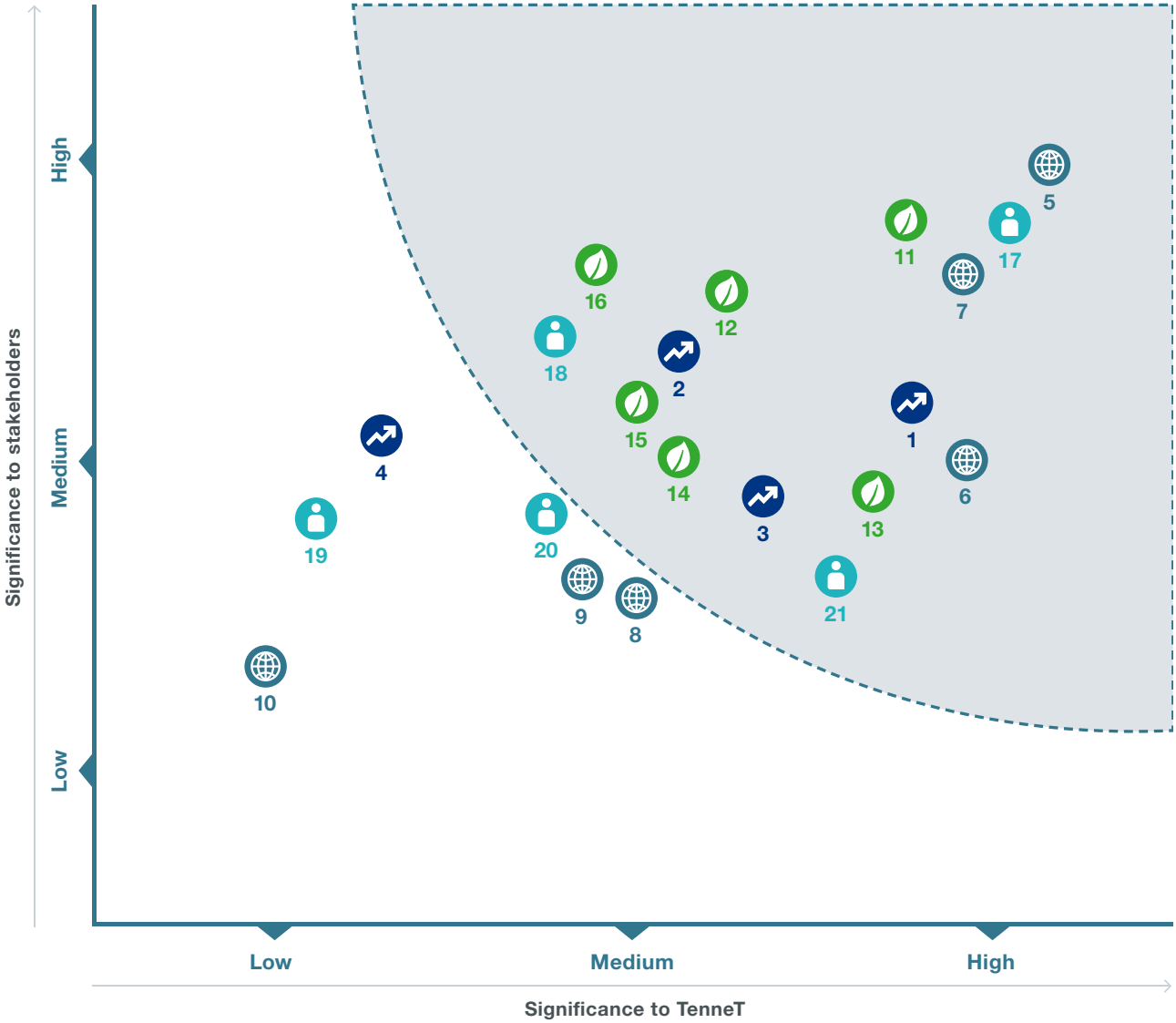
Process

We started the materiality assessment for this year's report with feedback from our stakeholders on our 2014 integrated annual report. We conducted in-depth interviews with TenneT's stakeholders and asked them to rank possible material topics on a five-point scale from not relevant to very relevant. TenneT's Executive Board members were asked to complete the same survey. The results of the stakeholder surveys are plotted on the vertical axis and the board members' results are plotted on the horizontal axis of the materiality chart.

Each material topic is connected to one of the areas we report on: markets, society, environment and employees.

The outcome of this year's materiality assessment clearly and unsurprisingly, shows that grid availability is the most material topic for TenneT. Other topics we consider very important are safety, engaging with local communities and our carbon footprint. All material topics are described in more detail in the following sections. For more information on some of the less material topics, please visit the CSR section of our website.

Materiality topics



Legend

Markets
- 1 North West European market
- 2 Financial impact
- 3 Customers
- 4 Guarantees of origin (CertiQ)

Society
- 5 Grid availability
- 6 Connecting citizens
- 7 Community engagement
- 8 NGOs
- 9 Electromagnetic fields
- 10 Copper theft

Environment
- 11 Carbon footprint
- 12 Grid losses
- 13 SF_6 leakage
- 14 Oil leakage
- 15 Biodiversity
- 16 Environmental incidents

Employees
- 17 Safety
- 18 Health
- 19 Training and education
- 20 Employee satisfaction
- 21 Employee composition

Covered in report

Facilitate the energy market

Security of supply

Executive Board Report

Vision, mission and strategy

The world around us is changing rapidly. The European electricity market is becoming more integrated and there is more electricity being transmitted across borders. Pushed by governments and the general public, there is a rapid transition from fossil fuels to renewable energy sources, such as wind and solar power, and increased focus on the need for European energy independence. At the same time, energy generated locally and by individual households is replacing demand for centrally-produced power. Consumers also become producers, or 'pro-sumers'. Consequently, electricity supply and demand patterns are becoming more complex, making our task to ensure security of supply even more challenging. Considering the many changes and new challenges we updated our strategy in 2015.

Vision

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

Mission

Create stakeholder value by providing security of electricity supply in the markets we serve and by pursuing, as a leading TSO, the development of an integrated and sustainable NWE electricity market.

Strategy

During 2015 we updated our strategy including the strategic priorities for the upcoming years. In this strategy update we involved a broad representation of our stakeholders.

Strategic goals

Following our mission, our overarching goal is to deliver value for our stakeholders. We aim to do this by:

- Securing a reliable supply of electricity and facilitating the integration of sustainable energy;
- Leading the development of an integrated and sustainable NWE electricity market;
- Engaging with our stakeholders – our employees, our shareholder, regulators, policymakers, customers, suppliers, media, NGOs and local communities; and
- Innovating and adapting our business for the future.

Strategic priorities

We have selected seven strategic priorities which we believe will best help us realise our goals. The first three are labelled as 'core' priorities and the other four as 'enabling'. They rank in no specific order of importance.

1. Enhance the flexibility and resilience of our transmission grid to ensure security of supply

To manage the rapid rise of renewable energy sources, improve our ability to balance power, ensure continuous voltage control and relieve grid congestion we will apply market-based solutions that improve supply and demand flexibility. We can also use software and possibly hardware solutions, such as developing storage technology.

2. Advance the use of data and analytics

To gain insight into the renewables load feeding into the grid and improve our forecasting to ensure security of supply we are collecting and enriching electricity and electricity-related data, which will also help us drive market integration.

3. Drive integration of the NWE electricity market, focusing on the Netherlands, Belgium and Germany

We closely cooperate with other TSOs on various topics, including market design, market coupling and regional security centres, to drive further integration of the NWE electricity market.

4. Anticipate and address what society wants and needs through dialogue and innovation

We actively engage with society and respond to societal needs and concerns with innovative developments such as transmitting electricity underground, dynamic line rating and high temperature super conductors.

5. Maintain access to capital markets and equity capital

The size of our investment programme requires ongoing financing and, given the regulatory uncertainties, also flexible access to equity.

6. Pursue operational excellence

We maximise capital expenditure (capex) and operational expenditure (opex) efficiency through smart capital expenditure and keeping operating costs low.

7. Pursue organisational excellence

We do this through our performance culture, organisational flexibility and best-in-class safety performance.

Closing the gap

The volatility of renewable energy is changing the dynamics of supply and demand. To secure a stable electricity supply for our Dutch and German users we need to look beyond national borders. So that when the sun doesn't shine in one country, for example, we can still supply solar power from another.

It can also lead to lower prices for consumers because electricity may be cheaper in one market than another. That's why we are working so hard to integrate markets in NWE. One way is through flow-based market coupling, which makes it easier for countries to trade electricity across borders. TenneT had a pivotal role in this development.

Gineke van Dijk, Senior Manager Customers and Markets

"Market coupling is a good example of how we create value for consumers. Our annual Market Review shows that the gap between electricity prices in the Netherlands and Germany is closing and that electricity in the Netherlands is becoming cheaper."

Bart Bartelds, Manager Energy Procurement at Tata Steel

"TenneT knows how to keep very technical projects understandable. For example, their programme to narrow the market price between countries is extremely complex but they explained it clearly."

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

Markets

The large-scale introduction of renewable energy is altering the dynamics of supply, bringing an influx of new players and energy sources into the market and decentralising electricity distribution. At the same time, the growing dependence on electricity demands greater reliability. To cope with this, electricity markets in Europe must become more integrated and flexible. TenneT is taking a lead role in integrating the electricity market in NWE to encourage cross-border connections and closer collaboration for the benefit of society, both now and in the future.

Market integration

Moving to a more integrated market in NWE will help lower electricity prices for consumers and make it easier for electricity to flow across borders, contributing to security of supply. This is particularly important as more renewable energy feeds into the electricity system. Renewables are more volatile by nature, making it harder to guarantee a continuous and reliable supply of electricity. We can counter this by connecting our grid to others, so we can keep electricity flowing, even when the sun is not shining in one place or the wind is not blowing in another.

In addition, the electricity system needs to become more flexible. The market design must be adapted to the new situation, facilitating demand response and storage. TenneT is actively contributing to the discussion regarding market design on a national and European level, and we initiate and participate in several projects.

In 2015, TenneT and a number of neighbouring transmission grid companies introduced a mechanism called flow-based market coupling, which allows electricity to flow and be traded more effectively across borders. This is expected to lead to electricity prices being more equal across Europe.

Market coupling has helped to harmonise electricity prices in different countries. Our Market Review, published in May, showed that the price of electricity in the Netherlands decreased by more than 20% in 2014 compared to 2013, and that market prices in the Netherlands and Germany are gradually moving closer together. In 2013, prices in the two countries were the same for 19% of the time; in 2014 this figure rose to nearly 30%. While market integration is driving the convergence, there are other factors that are having the opposite effect. For example, one of the reasons why electricity wholesale prices in Germany are still lower than in neighbouring countries is because of the high

percentage of wind and solar power in the mix, both of which are heavily subsidised. To mitigate this, we believe subsidy mechanisms should be harmonised across NWE.

TenneT also initiated the merger of the Dutch-Belgian APX Group power exchange with the French-German EPEX electricity exchange to enhance electricity trading. This combined entity has created a single trading platform for all of NWE, including Great Britain, making it easier and cheaper to trade electricity across borders. TenneT, which had a 71% interest in APX, now has a 17% indirect stake in the merged entity. And in September 2015, CASC. EU and CAO, the two regional auction offices for cross-border electricity transmission capacities, merged to create the Joint Allocation Office (JAO), a collaboration of 20 TSOs from 17 European countries. JAO significantly increases the efficiency and transparency of the European electricity market, creating a single point of contact for market participants with harmonised auction rules that simplify trading and promises substantial savings to TSOs in the coming years. With this merger TenneT changed its minority interest in two regional auction offices into a minority interest in JAO.

Policies governing the electricity market are increasingly made at European level and subject to approval by the Agency for the Cooperation of Energy Regulators (ACER) and ultimately the European Commission. TenneT is actively involved in drafting European legislation through our membership of ENTSO-E, the European umbrella organisation for TSOs, where we hold key positions on the management board and in various committees. ENTSO-E – and thus TenneT – is instrumental in setting up the European Network Codes. Facilitating an integrated market, these are common rules determining who may use electricity networks and how they are operated.

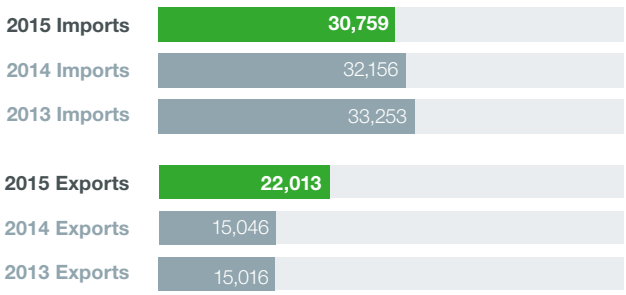
The codes are in varying stages of legislative approval, with some still being drafted and others, such as the Network Code on Capacity Allocation and Congestion Management, already passed into European law. We are pushing to have them all implemented as soon as possible to create a level playing field across Europe. Another important area of European-level activity are Projects of Common Interest (PCIs), with TenneT accounting for the greatest number among the European TSOs. These projects will not only support renewable energy and security of supply in our own markets, but also the rest of Europe.

Vital components for electricity trading are cross-border interconnectors that physically connect grids. We invest heavily in interconnection capacity and in 2015 we reached an agreement with our investment partners Statnett and KfW to start building NordLink, the first high-capacity power cable between Norway and Germany. This 1,400 MW interconnector will connect Germany's wind and solar power with Norway's hydropower. Also, the COBRA cable with a capacity of 700 MW, connecting Denmark and the Netherlands, is well on track and the planning is to start with construction in 2016. Interconnectors help to narrow the price of electricity in different countries and contribute to security of supply.

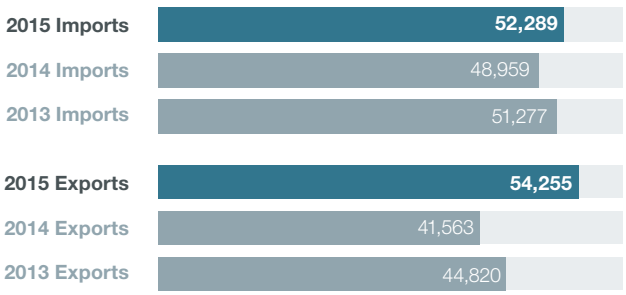
Although price disparities are necessary to help us to cover the costs of building an interconnector, we earn less on the interconnector when prices converge. We recognise that interconnectors benefit society, which is reason enough for us to continue investing in them.

The imports and exports to and from TenneT's grid show that in 2015 we imported and exported more electricity both in our Dutch and German grid, mainly as a result of price differences.

Imports and exports TenneT NL (GWh)



Imports and exports TenneT D (GWh)



Safeguarding security of supply also means we step in to help our neighbours when shortages in their grids could potentially impact our own. Last year, we provided Belgium with additional capacity to help it cope with a particularly severe winter. However, these were extraordinary measures that can interfere with the market. In 2015 we managed to come to a solution within the existing agreement to create security of supply in Belgium without market interference.

One of our main challenges for the coming years is the variability of renewables: neither the sun nor wind can be switched on according to consumer demand. Nor can excess energy be stored – yet. While it's not TenneT's role to provide storage solutions, we must be able to access all sources of electricity, including stored electricity once it is available, so we can balance supply and demand and ensure a stable and reliable electricity supply at all times. The key success factor will be to use all the flexibility options in the system.

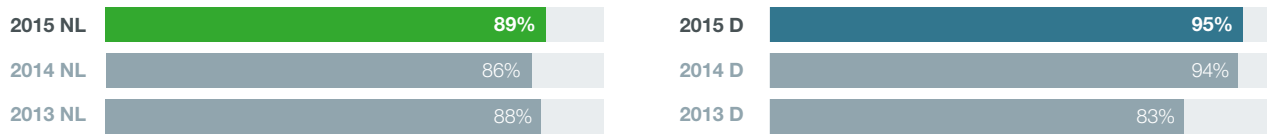
Customers

The rise of renewables in Germany means we have many new customers feeding into our grid. In 2015, we connected several Offshore Wind Farm Operators (OWFs) as new customers to our five new offshore convertor stations. And we connected a 6 MW strong Power-to-Gas Plant of Audi, which produces gas for gas fuelled cars. This plant can start up very quickly and can therefore contribute to the short-term market balance for electricity. There are also new players entering the market in the Netherlands, our customer base increased.

We offer customers the same consistent service and engage proactively with them through regular forums where we discuss actual developments. We held our first forum for offshore customers in Germany in October 2015. Our customer satisfaction scores show these forums are well received by our customers. We work closely with them to meet their electricity needs and offer equal access to our grid, without discrimination.

Increasingly, consumers are generating their own electricity, for example with solar panels, some of which they feed into the national grid. At the same time, the mass production of wind energy in the North Sea will supply gigawatts of capacity to Germany and the Netherlands. Traditional power generators, such as coal and gas-fired power plants, are also still in operation. Because they can switch their generators on and off to match demand, these customers have always played an important role in helping us to maintain the balance in the grid. Their role is waning, however. This creates a dilemma for us; although we want to keep our customers satisfied, we have an obligation to facilitate the transition to renewable energy and ensure equal access to the grid for all these new players. As such, we have to differentiate between customer satisfaction and our role in society. Better use of data and analytics will help us and our customers to anticipate demand and supply and ensure electricity is available when and where it's needed. We are transparent about this and talk openly to our customers. As a result, our customer satisfaction scores increased, which underlines our efforts in maintaining the relation with our customers.

Customer satisfaction (%)



Electric cars given a vital role in grid stability

Starting in 2016, thousands of electric vehicles will be deployed to support the frequency of the power grid. This Dutch pilot fits TenneT's strategy to prepare the grid for the influx of renewable energy. Electricity from volatile renewable sources is expected to rise exponentially in the coming years and there will be times when hardly any conventional generators are running. We therefore need to create alternatives to reduce our dependency on these generators for frequency support. Electric vehicles offer a promising source of flexible storage. That's why we are working with parties who are able to combine the capacity of multiple electric car batteries into a meaningful volume of electricity that contributes to grid stability. Traditionally we have relied on a small number of big players to maintain grid stability. Now we have to transform the system to also use large numbers of small players. This pilot will set the stage to make this change possible and enable it on a large scale.

Making the **difference**

While everyone wants and uses electricity, not everyone is happy when TenneT builds new power lines or cables, especially when these run through their backyard or in areas of natural beauty. But maintaining and expanding our grid is imperative for the future security of supply.

We therefore make every effort to connect with local and regional residents, NGOs and politicians from the earliest stages of a project, so we can minimise any opposition and gain acceptance for the work we have to carry out. We've found this works best when we engage with smaller stakeholder groups and tailor our approach to address their specific concerns.

Ursela Schennink, Manager Business and Project Communications

"To keep electricity flowing across NWE TenneT thinks across borders but acts locally. We take responsibility for neighbourhoods by putting our brand values into practice. This means being responsible, engaged and connected. For us, creating stakeholder value is about listening to people, answering questions in a clear way and where possible take their suggestions and wishes into account."

Pauline Tiecken, Project Leader at Apeldoorn municipality

"These are technical engineers, they maintain and replace cables. Initially they did not do much to engage the public, not until they were literally digging in people's gardens. Then they realised they had to earn their acceptance. By the end of the project, the residents were even proud to have TenneT working on their doorsteps."

Modern society is powered by electricity

99.9975

Grid reliability (%)

Society

Our high-tech and always-on society has a voracious appetite for energy that shows no sign of abating. Electricity powers everything, from our homes, phones and cars to industry and the Internet of Things. At the same time, there is mounting pressure from society for electricity to come from sustainable sources such as wind, sun, water and biomass. It is TenneT's job to connect more renewable energy to the grid and to make sure our 41 million Dutch and German end-users always have electricity, no matter what the weather. This requires us to build new infrastructure and we take into account the impact this may have on society.

Security of supply

TenneT's track record in grid availability is among the best in the world. We work hard to guarantee a reliable electricity grid, a task that is complicated by the volatility of renewable energy, which makes it harder to balance supply with the rising demand.

In 2015, our onshore grid availability was 99.9975%, slightly down from 99.9999% in 2014. This was largely due to a major 1,500 MW power outage caused by a short circuit on the 380 kV substation in Diemen on 27 March 2015. This was the biggest outage ever in the Netherlands, affecting one million end-users in Amsterdam and the province of Noord-Holland. The impact of this outage on Dutch society and the economy illustrates the extent to which the Netherlands depends on electricity.

It also underlines the need to investing in infrastructure to guarantee security of supply. A smaller 124 MW outage occurred in Kerkrade, in the southern province of Limburg on 2 November 2015. This outage left around 84,000 households without electricity. There were also two relatively small outages that impacted security of supply in our German grid. Both occurred in the Sandershausen substation, close to the city of Kassel, on 31 March 2015 and 16 May 2015. The total number of interruptions in 2015 increased to 18, the majority of which occurred in our 110/150 kV grid in the Netherlands. The causes of these interruptions ranged from weather impact to component failure. The increase in energy not transported is mainly due to the outage in Diemen.

	2015	2014	2013
	Total	Total	Total
Total			
Grid availability	99.9975%	99.9999%	99.9999%
Interruptions	18	4	9
Energy not transported (MWh)	3,824	77	383
220/380 KV			
Interruptions	4	-	2
Energy not transported (MWh)	3,679	-	303
110/150 KV			
Interruptions	14	4	7
Energy not transported (MWh)	145	77	80

While we can never eliminate outages completely, TenneT is working to minimise their impact. We are extending the Randstad North ring 380 kV, which will ensure any future outages will not have the same impact. Another measure is the addition of a third rail system, in new 380 kV substations, which provides more flexibility in the event of a failure. We work continuously on maintaining the grid and developing our employees' capabilities to ensure we keep interruptions and eventual outages in electricity supply to a minimum.

Our grid availability is reported as the sum of the availability on the national grids, thereby underestimating the impact for TenneT as a whole.

More and more electricity is being transported via our offshore grid. Our offshore grid performed with a grid availability of 93%, which is a good performance taking into account that this includes unavailability due to maintenance. Because our offshore grid is designed with no redundancy, unlike our onshore grid, this number cannot be compared nor be included in our onshore figures.

In Germany, maintaining security of supply is increasingly difficult due to the lack of sufficient high-capacity lines yet to transport all of the German wind energy generated in the north, including the North Sea, to the industrial south. We therefore have to find other ways to distribute it, especially at times when production peaks.

This is especially challenging on windy days when there is more power feeding in than can be consumed, or on days when there is no wind at all. Some of the excess power was rerouted, e.g. through neighbouring countries such as Poland, but such possibilities are less possible in the future as the neighbouring countries introduce measures to protect their grid against large transit flows. We are increasingly using a method called 'redispatching' to run our operation safely. TenneT can ask power plants to change their operating schedules at short notice to compensate for grid constraints so there is always a stable supply of electricity. While effective, contracting power stations to fill in supply gaps is costly. In 2015, TenneT incurred feed-in management costs and higher redispatching costs, which are expected to rise further to as much as EUR 1 billion by 2020.

Addressing the challenges posed by renewable energy with 'MIGRATE'

(Massive InteGRATion of power Electronic devices)

By 2020, high levels of wind and solar energy will flow through the pan-European high-voltage grid. As this occurs, more and more devices that generate and consume electricity will be connected to the grid through power electronics. This will lead to technical challenges due to the lack of rotational inertia in the power plants, which endangers stability. The MIGRATE research programme seeks to develop solutions to these technical issues, aiming to maintain grid availability and stability, quality of supply, control and grid protection.

TenneT plays a leading role in this important work, leading the consortium established for the MIGRATE programme. As well as TenneT Germany and TenneT Netherlands, it brings together expertise other TSOs in Estonia, Finland, France, Germany, Iceland, Ireland, Italy, Slovenia, Spain and he UK. Essential manufacturers and a number of universities and research centres are also involved. The international MIGRATE consortium is looking to secure funding from Horizon 2020, the biggest ever EU Research and Innovation programme.

The solar eclipse in March 2015 put additional pressure on the German grid to cope with a sudden loss and return of solar power. Months of preparation in cooperation with other TSOs in Germany and across Europe, meant we had sufficient energy reserves available on the day to keep the supply steady with hardly any impact to end-users. In the Netherlands, dense cloud cover meant the eclipse had no impact at all.

Connecting citizens

Keeping society connected to an electricity supply requires us to invest in maintaining and developing our grid infrastructure. We have an ambitious investment portfolio to make this happen. To ensure we are equipped to perform this task, the 'Asset Chain Initiative' project was undertaken to harmonise and improve our processes and standards so our projects run on time, in scope, within budget and meet the required quality standards.

An issue that came to the fore in 2015, both in the Netherlands and Germany, was underground cabling. In the first half of 2015, we relaxed our constraint of 20 km on underground cabling for 220 kV and 380 kV alternating current (AC) connections in the Dutch grid, based on more extensive technical experience gained. The German government also raised the number of pilot projects for partial AC cabling. In specific situations, underground cabling may be a viable alternative. However, there are still technical reasons for limiting the overall share of cabling in meshed AC grids in order to guarantee security of supply. Technically, DC connections are more suited to underground cabling. In Germany, government and parliament have opted for the priority of underground cabling for all DC- connections like the north-south SuedLink line. The new law is in force since 1 January 2016. It means we will have to make adjustments to the originally planned route for this project and revisit the affected communities to update them on what this will mean for them. Underground cabling for SuedLink will also require substantially higher investment (4-8 times higher) than the conventional route that was originally planned.

In December 2015 the Dutch Senate rejected the draft bill STROOM. This draft bill also included the Dutch government officially appointing TenneT to build, own and operate the Dutch offshore grid. Early 2016 the Parliament approved the revised bill 'timely realization targets energy agreement', and is now awaiting Senate approval. There is substantial pressure on us to meet the government's ambitious time schedule for constructing the OWF that must be connected to its 'Grid at Sea'.

In addition to developing of wind offshore, we also faced some major challenges in terms of onshore wind requirements. As part of the Dutch Energy Agreement, 6,000 MW onshore energy has to be realised in 2020. At the end of 2015, the Netherlands had only realised half of its target. This huge amount of wind also needs to be connected to the grid within a short period of time. Therefore, we have started a close cooperation with DSOs, provinces and wind farm developers for an optimal grid solution that also minimise the social costs.

In February, the Dutch Court of Audit (Algemene Rekenkamer) questioned TenneT's 2009 purchase of German transpower, and whether it was in the interests of the Dutch public. Both the Ministry of Economic Affairs and the Ministry of Finance came out in support of the acquisition and were explicit in their response that the acquisition was necessary to guarantee a reliable, affordable and sustainable power supply in the Netherlands. This was also confirmed by our investigation, reported last year.

A vital part of our discussions with politicians and policy-makers is around the future of energy in Europe. TenneT has gained a reputation as an impartial and informed expert

and our opinion is valued by decision-makers, who have adopted our input in policy papers such as the German White Paper on the design of the country's electricity market and its draft electricity market law of November 2015.

Connecting Citizens with 'PROMOTioN'

(Progress on Meshed HVDC Offshore Transmission Networks)

As wind energy becomes increasingly important to the European energy supply, we are working tirelessly to keep citizens connected. As more wind energy enters the system, more interconnections need to be built between OWFs and onshore grids. TenneT is one of the parties working on PROMOTioN, a leading four-year European research programme that will result in an offshore grid development plan for 2020 and beyond. As well as setting out the development plan, it will optimise the regulatory and financial framework. PROMOTioN kicks off in 2016, thanks to EUR 39 million in funding over seven years from Horizon 2020, the flagship EU Research and Innovation programme. This is a major achievement for our colleagues in the Netherlands and Germany. PROMOTioN aims to develop three key technologies: a low-cost offshore diode rectifier, a multi-supplier HVDC grid protection system, and HVDC circuit breaker prototypes. TenneT will carry out the PROMOTioN research programme in collaboration with 35 leading players in the field of HVDC transmission grids, ranging from TSOs and universities to multinational corporations.

In 2015, five new offshore grid connections in the German North Sea became operational, generating a total of 4,300 MW, which is expressed by the increase of our HVDC convertor locations. Each offshore grid connection has a HVDC station offshore and onshore to convert electricity from AC to DC and back. Our offshore grid now transports wind energy from 11 OWFs to the onshore grid. Also our onshore asset base increased, two onshore connectors, the Frankenleitung and connection Hamburg Nord-Dollern started transporting electricity.

In accordance with our reporting principles the figures in the table include all activities of TenneT and subsidiaries in which it holds a controlling interest (in general >50% voting interest). Consequently, The HVDC converter station of BritNed (a 50% joint venture) is not included. For more detailed information about our grid infrastructure go to the CSR section of our website.

Community engagement

Despite society's appetite for power, there is some public opposition to grid expansion, especially when these concern new installations. It is crucial that we connect with local communities, NGOs and politicians from the earliest stages of a project to address their concerns and gain their acceptance. It is our experience that stakeholder dialogue works best on a small scale, with a tailored approach.

The results of a recent reputation survey show we are making much progress in creating stakeholder value in this area. Stakeholders mentioned that we have a stronger outward focus, more sensitivity to the interests of others and a more constructive attitude than we showed in the past.

Examples of successful cooperation with local communities are for instance our approach in Apeldoorn in the Netherlands, where we installed underground cabling after successfully communicating with local communities. In Zeeland we reached agreement with local residents, municipalities and shipping, agricultural and environmental interest groups on an underwater route for a cable to link the offshore Borssele wind farm to the onshore grid.

The German government's decision to run high-voltage direct current (HVDC) cables underground is preferred by residents as this type of cable not visible in the landscape. As such, we can run these cables through areas we may have had to avoid before, which will shorten the route. However, it will cause some delay to the project, because some planning and licensing procedures need to be executed again based on cabling instead of overhead lines.

	2015	2014	2013
Number of substations	454	443	438
HVDC Converter locations	13	3	3
Connected OWFs	11	7	2
Total circuit length (km)	22,245	20,858	20,791
Overhead lines	18,893	18,716	18,832
Underground cabling	3,352	2,142	1,959

Whenever we engage with stakeholders about projects we recognise their concerns and do our utmost to involve them in our planning process. Our efforts to engage communities and inform them about SuedLink were recognised again in 2015 with a good practice award for project communication from the German Society for Project Management.

We are also involved in ongoing talks with communities opposed to the Zuid-West 380 kV grid expansion project in the south of the Netherlands. This high-voltage line will enable us to transport renewable electricity from OWFs to the rest of the country. Based on these talks, new routes are currently being considered, as well as options such as underground cabling.

In 2015, we held around 107 public events with stakeholders in Germany and 81 public events with stakeholders on Dutch projects, next to many meetings with important stakeholders on local, regional and national level.

We have noticed that opposition to our projects is becoming more professional, and more special interest groups are turning to social media to share their views. In turn, we are stepping up our cooperation with organisations such as the Dutch environmental NGO Natuur & Milieu, which is helping us address public concerns related to our offshore activities.

Public acceptance of our expansion projects is crucial to ensure we can carry out the necessary work to keep our grid stable and robust enough to cope with both the growing demand for power and the volatility of renewable energy sources. We want to boost our cooperation with NGOs in Germany and the Netherlands, expand our stakeholder platform with the Dutch Ministry of Economic Affairs and step up stakeholder dialogue on offshore projects in the Netherlands. We will continue to communicate about our projects on both sides of the border and address public resistance to our plans.

Partnering for **sustainability**

We play a key role in implementing the energy transition. At the same time we have a responsibility to limit the impact our high-voltage lines and installations may have on the environment. We take measures to protect wildlife and natural habitats and to preserve the landscape.

Sometimes this means rerouting a planned cable. Other times we look for innovative new ways of doing things. For example by running cables underground so they are less visible in the landscape, or by designing masts with smaller electromagnetic fields. We also communicate openly and transparently with our stakeholders to find solutions to minimise any concerns about nature and the environment. In this way we are contributing to a sustainable future for the Netherlands and Germany.

Paul Garmer, Senior Manager Public Affairs
"We work closely together with NGOs because they have knowledge and networks that help us understand and address society's concerns. Thus we can expand our perspective and engage early with our stakeholders which increases acceptance for our projects."

Dr. Peter Ahmels, Head of Renewables Energy, Deutsche Umwelthilfe e.V.
"My impression is that TenneT really learned that early stakeholder engagement and a transparent and continuous stakeholder dialogue are crucial for public acceptance."

0.35

SF_6 leaked (%)

Environment

Transporting electricity is TenneT's core business. It requires us to construct and maintain a physical network of transmission lines and cables, substations and other infrastructure on land and sea. This undoubtedly has an impact on nature. We cannot do our work without affecting our environment in the broadest sense. We recognise that we have a responsibility to care for the well-being of the natural environment, and to protect green spaces and wildlife for future generations.

Carbon footprint

We present our gross CO_2 footprint in three scopes: direct emissions from our own operations; indirect emissions related to purchased energy; and indirect emissions related to other purchased goods. Our nett carbon footprint takes our measures to green our electricity use into account, resulting in a lower carbon footprint. Our calculations are based on the CO_2 Footprint Network Operators Manual, of the Association of Energy Network Operators in the Netherlands. For more detailed information and insight into our calculations go to the CSR section of our website.

Carbon footprint TenneT (tonnes CO_2e)

Carbon footprint TenneT total

2,192,187 tonnes CO_2e (gross)

1,717,847 tonnes CO_2e (nett)

Scope 1 (1.38%)

SF_6 leakage
26,433
(1.21%)

Lease vehicles
2,856
(0.13%)

Gas consumption
867
(0.04%)

Scope 2 (98.29%)

Grid losses
2,094,017
(95.52%)

Electricity use stations
56,706
(2.59%)

Electricity use offices
3,970
(0.18%)

Scope 3 (0.33%)

Travel
7,338
(0.33%)

Over 95% of TenneT's carbon footprint is due to grid losses, but our SF_6 leakage and electricity use in our own operations also contribute to greenhouse gas emissions.

We recognise the need to pro-actively reduce, green and compensate for our carbon footprint and are setting up a company-wide carbon footprint policy for our operations in the Netherlands and Germany. For 2015, we have chosen to green our electricity use to the maximum extent permissible by law, resulting in a lower carbon footprint ('net carbon footprint').

Grid losses are calculated as the difference between the amount of electricity produced entering our transmission system and the amount that leaves our system for consumption. The distance the energy has to travel and the local energy density in the grid determine the grid losses. Both are strongly influenced by the geographical spread of renewable energy sources such as offshore wind and by the integration of the European electricity market. Therefore, from a value chain perspective, an increase in our grid losses does not necessarily negatively impact the environment. The 2015 grid losses and carbon footprint figures show that TenneT's gross carbon footprint has increased, mainly because of increasing grid losses, due to the aforementioned larger geographical spread of renewables.

Grid losses	2015	2014	2013
Grid losses (GWh)	3,879	2,824	2,544
Total carbon footprint (tonnes CO_2)	2,192,187	1,614,251	1,484,714
Transported electricity (GWh)	250,199	226,468	230,402
Grid losses /transported electricity	1.55%	1.25%	1.10%

Superconducting cable to fit the environmental bill

TenneT plans to install two to four kilometres of underground 150 kV HTSC in the Netherlands. It will be the first time a superconducting cable of this length is installed anywhere in the world. Superconductors can transmit up to a thousand times more electricity than conventional copper. Because HTSC cables are cooled at -198 °C, they have no electrical resistance and therefore create no electricity losses. This reduces grid losses and lowers our carbon footprint. We are currently considering the location of the first superconducting cable. The results of the pilot will determine whether we use HTSC cables more widely in future. Underground superconducting cables can help us meet society's desire to spare the landscape and the skyline and should make it easier to install high-voltage capacity in urban areas. TenneT is collaborating with several leading universities on this pilot, including Delft University of Technology, the University of Twente, the Institute for Science and Sustainable Development (IWO), HAN University of Applied Sciences and Imtech Marine. The project is scheduled for completion in June 2019.

SF_6 leakage is another important issue we deal with. SF_6 is a greenhouse gas with 23,900 times more impact than carbon dioxide. Because of its unique characteristics, there is no alternative yet to SF_6 for some of the equipment used in our substations. We therefore prefer open air-insulated substations for new stations, as these open-air insulated substations use a minimal amount of SF_6. They also require more physical space than gas-insulated stations. What's more, due to permit constraints, some of our substations have to be designed as gas-insulated systems. These contain significantly more SF_6 than open air-insulated systems. For our offshore convertor stations too, we have to esort to SF_6 insulated systems as the space available is limited. Despite these constraints, we are committed to not increasing our absolute leakage of SF_6 further, taking 2015 as our base year.

We started measuring SF_6 leakage for our assets in Germany in 2015. The SF_6 leakage rates of our German assets for 2013 and 2014 are based on an estimate approach, as agreed with the other TSOs in Germany. Therefore, the comparability of the figures is limited as demonstrated by the large decrease in leakage rates for the German onshore asset base. The increase of banked SF_6 in 2015 is mainly explained by the fact that TenneT took five offshore platforms into operation this year. The final SF_6 leakage rate for 2015 is mainly caused by our assets in the Dutch grid and the reduction in emissions must be realised in that part of our grid. Compensation of our impact on greenhouse gas emissions is part of our ambitious SF_6 policy.

Biodiversity and environmental protection

Our assets are located throughout the Netherlands and Germany, often in areas of natural beauty. This can impact the biodiversity, ecosystems and landscape. At the same time TenneT relies on nature to create visual screening, reduce noise and secure areas around our stations. Our 'Commitment to Nature' vision underlines our approach to biodiversity, ecosystems and the landscape. In practice, it means that near existing high-voltage onshore and offshore grids and during construction we see it as our responsibility to avoid and minimise our impact and protect and improve local nature. We always strive to balance our business activities against their impact on nature.

SF_6 incidenten	2015	2014	2013
SF_6 leaked (kg)	1,106	1,410	1,659
SF_6 banked (kg)	314,957	251,440	250,978
SF_6 leaked (%)	0.35%	0.56%	0.66%

In 2015, we worked closely with leading Dutch environmental NGO Natuur & Milieu on the expansions of our grid in the Dutch North Sea. We asked them to provide input for our environmental impact assessment in advance, rather than seeking their feedback afterwards.

On land, we use underground cables in certain places to spare the skyline and the landscape. We proactively investigate the ecosystems and landscapes our assets affect and take steps to mitigate the impact of our assets by replanting vegetation and grass, ensuring our substations blend in with the landscape. We work closely with local organisations on new and existing projects and adapt our way of working to benefit the environment. For example, we worked with the municipality of Boxmeer in the south of the Netherlands to transform the forest under our power lines into heath. This increased the local flora and fauna and reduced the risk of trees touching the overhead lines and impacting security of supply.

In Germany, we started a nature conservation project on the North Sea island of Norderney to develop a natural 66-hectare salt meadow to compensate for our offshore activities when we lay the Wadden Sea cable for the Alpha Ventus wind farm.

Our responsibility towards biodiversity and ecosystems also makes us realise that we need to take every measure to protect the environment and prevent spills or leakages. TenneT uses oil to insulate and cool transformers and to insulate existing, older land cables.

The majority of the leakages are caused by older cables in the Netherlands or incidents during construction work. The huge increase in 2015 was caused by an incident during construction work in the city of Rotterdam, which involved an oil spill of 3,400 litres, and the explosion of an oil filled component at one of our substations in Germany causing a spill of around 8,000 litres. The increase of environmental incidents can be explained because we are increasing our offshore operations, where the majority of the incidents took place. In case of a leakage TenneT takes the appropriate measures to clean the contaminated soil and water.

Looking ahead, we see society placing increasing pressure on the energy industry to move towards a sustainable future. This transition requires TenneT to invest in its infrastructure, an investment which will certainly affect nature. Whenever we can, we go the extra mile to address environmental concerns, thereby enhancing our reputation as a responsible company and increasing acceptance for our projects.

Environmental incidents	**2015**	2014	2013
Oil leaked (litres)	14,091	8,283	4,043
Environmental incidents	84	49	36

2,974
Employees

LTIF 2.2

Employees

TenneT is powered by its people. They are the key to our continued success and growth. That's why we create a safe, healthy, stimulating and energising place for them to work and empower our people to perform. We connect their personal ambitions to our strategic goals to fulfil our mission and commitment to society. Our core values guide us in everything we do: quality and integrity are an integral part of our vision for our people and our organisation.

Energising place to work

TenneT wants to be an employer of choice and create one of the best places to work in the European energy sector. This year, for the first time ever, the outcome of our annual employee survey put us firmly at the top of a ranking of the best companies to work for. In 2015, as many as 83% of our employees felt sustainably engaged, compared to 81% last year. This means they feel committed, enabled and energised to do their job to the best of their ability. This is a significantly higher percentage than peer organisations (energy & utilities benchmark of 75%, high performance organisations benchmark of 82%).

Treating people with respect and giving them the tools to do their jobs are TenneT's key strengths.

Our people take pride in TenneT and share a belief in our goals. This is crucial to us and our ongoing success. Empowered by You! sets out our vision on people and the organisation and defines the direction of our HR policies and strategies for the next five to seven years. We have identified four key development areas which will help us achieve excellent performance and personal growth. These are talented employees, inspiring leaders, stimulating climate, and teamwork for excellence.

Employees	2015	2014	2013
Number of internal employees	2,974	2,813	2,593
Number of external employees	659	431	523
Male employees (%)	77%	78%	78%
Female employees (%)	23%	22%	22%

More than 80% of employees are covered by collective bargaining agreements. For more detailed information about our employees go to the CSR section of our website.

In 2015, the number of internal employees increased by 161, as our investments in both offshore and onshore projects in Germany and the Netherlands grew. We expect our staff levels to increase again next year, but by a lower number.

We recognise that as an organisation that serves society we must reflect that society in order to fulfil our purpose. At TenneT, we aim for diversity in the broadest sense. We do not see diversity as merely a matter of gender or ethnicity, but also of personality. We need men and women, people from different backgrounds, religions, cultures and creeds, but also introverts and extroverts, technicians and support staff, internal and external employees. In fact, to manage our workload, we define our needs for external flexible staff each quarter. We actively encourage exchanges between our Dutch and German colleagues where they can meet and learn from each other. The more we make use of the differences between us and the more we can cooperate and learn from each other, the stronger we will be as a company serving a highly diverse society. And the better we will be able to serve our diverse stakeholders, who range from the Dutch state to international investors and local residents.

To attract the talent we need, we work with universities and polytechnics and other higher education institutions and participate in energy fairs. We identify talented future employees for our TenneT-wide Young Professional programme. In Germany, we were awarded 'Best Place to Learn' for on-the-job training, by the renowned certifier AUBI.

Identifying and retaining scarce talent with the right expertise at an early stage is crucial to our succession development, making us resilient for the future. We are recognised both internally and externally as an employer of choice for talented employees. We work hard on creating a stimulating, open work climate, carried by inspiring leaders who we encourage to foster collaboration and successful change. Last year, we introduced our Power to Perform programme, aimed at encouraging our performance culture.
All departments are now involved and supported by a group of 'Front Runner' employees, who help us improve our performance culture, including amongst others our feedback culture. We support our leaders through various development programmes for managers, project managers and key experts and we encourage open feedback.

Based on the success of the 360-degree feedback pilot we will introduce the 360-degree tool to all our leaders and employees.

Crowdsourcing fuels innovation and creativity

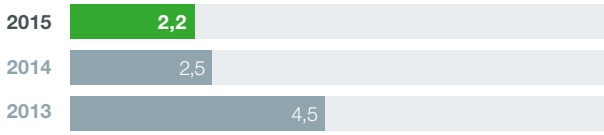
To be the best we can, we constantly look for new and better ways of doing things. Fresh ideas come from inside and outside of TenneT. This is the principle of open innovation, which encourages external contributors to think along with us. Crowdsourcing is a good way to apply this. It connects people based on their knowledge, expertise, engagement or profession. Ideas are enriched by feedback from the crowd or by collaborating on even more creative solutions. The more diverse our workforce is in terms of backgrounds, beliefs and personality, the more opportunities there are to see things from new perspectives and think creatively. Innovation is an important part of our strategy and we use crowdsourcing to encourage innovative ideas among our people. The first three winning sustainability ideas – energy-saving stations, cutting down on travel and regard for the environment surrounding our assets –were implemented during 2015.

Our employees are and will remain our greatest asset. To successfully meet the challenges of our constantly changing business environment and our stakeholder demands, we must rely on the performance of our people. Looking ahead, we see more and more diversity in the world. We aim to rise to this challenge and mirror it in a spirit of openness, never losing sight of our brand values of being responsible, engaged and connected.

Safety

The safety of everyone involved in our activities – our employees and our contractors – is a top priority. Our Safety Vision 2018 aligns our views on safety with TenneT's strategic goals while retaining our licence to operate. We continually strive for zero work-related incidents and accidents. Our goal is to become a safety leader and to have a pro-active safety culture. We aim to be recognised as such by our own employees as well as by our stakeholders. Our quantitative goal for 2018 is to have a combined lost-time injury frequency (LTIF) for our own employees as well as for our contractors of lower than 1.0. In 2015, LTIF decreased significantly to 2.2, a considerable achievement, particularly given our increased offshore activities, which by their very nature are more risky than our traditional business on land.

LTIF



Safety relies on efficient processes and is a reflection of operational excellence. We want to be an excellent performer on safety and look to best-in-class performers in the petrochemical, oil and gas industry as the benchmark when we set our own safety objectives.

We have identified three main areas for improvement in the years ahead: safety leadership, one TenneT standard and contractor management. Safety leadership sets the 'tone from the top'. Our leaders accept full accountability for safety and demonstrate leadership, by conducting safety walks at our stations and project sites. They communicate about this and actively review the way we work to ensure continuous improvement. We learn from our mistakes and report high-risk incidents, and starting in 2015, we also measure the number of incidents under investigation; the so-called investigation index. Every incident must be investigated within two weeks of occurring. If we take any longer to investigate, this must be backed up by a sound explanation. By the end of 2015, 100% of incidents were investigated according to plan. Besides formal management, we stimulate and develop safety leadership for each individual by providing training and workshops, among other things. We introduced the TenneT Safety Award in 2015 to honour our employees who are safety heroes.

One TenneT standard means that our safety policy must be clear to all our employees and contractors and where appropriate we introduce company-wide standards to achieve this clarity. We have drafted Life-Saving Rules, which describe the safety behaviour we expect from our employees. These will be rolled out across TenneT in 2016.

Our contractors are an integral part of our operations and we set great store to their safety performance. As our business grows, we will rely more on contractors. It is crucial that they share our safety standards and contractor safety has now become an official part of our tender process. A key element of TenneT's Safety by Contractor Management programme is performance management throughout each tender phase as well as throughout the actual work process. The tender phase aims to select the best business partners for TenneT in the area of safety by focusing on and assessing the capabilities of our suppliers. Special attention is given to their safety culture. They must demonstrate a proven track record through their past performance and by submitting references. We also challenge them to submit a risk-based SHE (Safety Health Environment) plan. Continuous monitoring of the agreed safety performance is conducted once the work is underway. This approach works both ways and results will be integrated in future tenders and addressed in supplier relationship management.

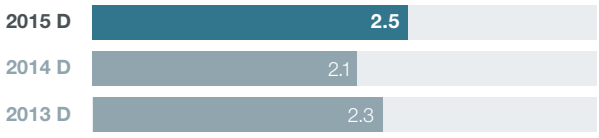
Health

In 2015, we experienced an increase in our absentee rate, because of a severe outbreak of flu in the first months of the year.

Our newly-developed health and vitality platform 'Always Energy' sets out our approach to encouraging our people to adopt a healthy lifestyle. Resilient employees foster a resilient organisation and with a better work-life balance they can cope better with challenges in their jobs and private lives. In other words, sustainable employability is the outcome of a good mental and physical condition and continuous personal development.

To stimulate a healthy lifestyle, TenneT offers a wide range of benefits and options that go beyond mere legal requirements. Some of these relate to health, others to sport, food and the physical working environment. We cast our nets wide because we want to encourage all our employees to participate in some form or another – and that includes our not-so-sporty colleagues.

Absentee rate based on country standards (%)



Our commitment to helping our employees become more resilient is rooted in our company culture and values. We want to deliver value for our stakeholders by being responsible, engaged and connected. These three values certainly hold true for our Always Energy activities.
An example of a successful, long-standing health programme at TenneT is our Committed Power programme. This programme is open to all employees and their partners and provides coaching, training and medical supervision to encourage them to undertake a sporting challenge, such as cycling, Nordic walking, running or skating.

2,405
Investments
(EUR million)

681
Profit for the year

Financial

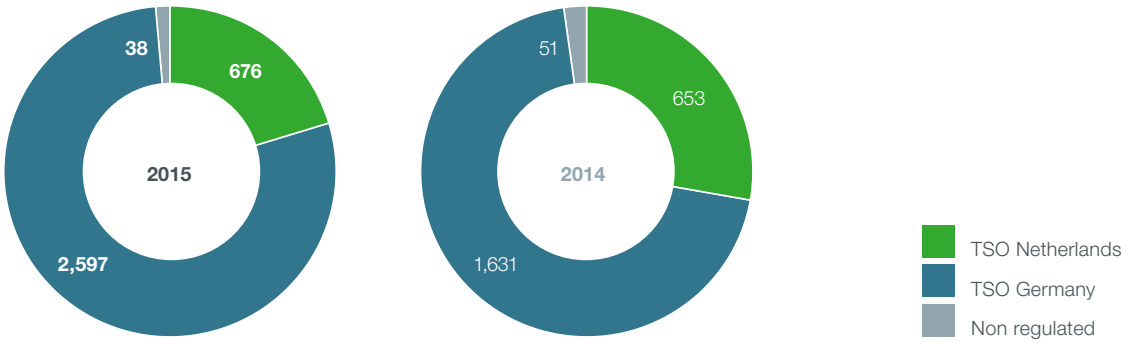
Our license to operate is based on ensuring security of electricity supply in our markets while delivering maximum benefit to society in the most financially viable way. The transition to a renewable energy future requires TenneT to make significant investments, which consequently requires additional funding. TenneT's growing asset base and investments in recent years led to a further increase in revenues and EBIT in 2015, but also higher opex. From a finance perspective, our main priorities are to optimise efficiency of capex and opex while maintaining an appropriate capital structure.

(EUR million based on underlying financial information)	2015	2014	2013
Revenue	3,290	2,315	2,243
EBIT	1,075	725	620
Profit for the year	681	418	357
Investments in tangible fixed assets	2,405	2,296	1,868
Total assets	15,424	13,645	11,534
Return on invested capital	12.7%	11.0%	11.6%
Net interest bearing debt, adjusted	5,703	4,167	3,147
FFO/net debt	19.8%	18.0%	18.6%

TenneT measures and manages its financial performance based on 'underlying' financial information and not IFRS reported financials. We believe underlying financial information better represents our actual business and financial performance, since it involves the recognition of regulatory receivables and payables, which are settled through future grid tariffs based on the currently enacted regulatory frameworks. Consequently underlying financial information better reflects economic reality in our opinion. Reference is made to the section 'Segment information' for further details and reconciliations from the underlying profit measures to IFRS. Further information about the regulatory framework is included in the last paragraph of this section.

Results for the year

Revenue (EUR million)



Consolidated underlying revenue at EUR 3,290 million increased by EUR 975 million compared to 2014. The increase is mainly driven by TenneT's investments and growing asset base in recent years. Particularly the high level of investment in Germany, especially offshore, positively affected revenue, since the regulatory framework provides for an immediate return on capital invested in large projects during the construction phase.

In the Netherlands we receive a return on the capital invested starting at the point when the assets are taken into use. The growing asset base in the Netherlands over the years resulted in higher revenue for 2015. However, this positive effect is partly offset by the declining regulatory allowed return for 2014 - 2016.

EBIT

(EUR million)	2015	2014	Change
EBIT	1,075	725	350
ROIC	12.7%	11.0%	1.7%
EBIT excluding special items	704	596	108
ROIC based on EBIT excluding special items	8.4%	9.0%	-0.6%

TenneT's underlying EBIT in 2015 amounted to EUR 1,075 million and was significantly affected by special items.

Underlying EBIT excluding special items

Underlying EBIT excluding the impact of special items amounted to EUR 704 million and was EUR 108 million higher than the comparable figure in 2014 (EUR 596 million).

The regulatory regimes governing TenneT's revenue, allow the company to earn a return on the capital invested in its grid assets. As TenneT's investments and consequently its asset base have grown substantially in recent years, underlying revenue and underlying EBIT (corrected for special items) have shown a continuous growth during the last few years. In addition, revenue and EBIT from non-regulated activities, notably BritNed, have increased as well since 2011.

EBIT (EUR million)

The special items impacting the 2015 EBIT relate to the following:

- offshore revenues received in excess of costs and release of offshore provisions (EUR 220 million);
- reversal of impairment (EUR 90 million);
- energy & capacity revenues (EUR 13 million);
- sale of APX (EUR 12 million);
- other miscellaneous items (EUR 36 million).

Offshore revenues received in excess of costs and release of offshore provisions

TenneT receives a fixed percentage reimbursement over the invested capital for operating and maintenance costs during the construction period and the first years of operation. With a significant number of offshore projects going into operation at the end of 2015, the actual spending on operating and maintenance during the year has been limited. However, it is uncertain how actual operating and maintenance costs of these connections will develop in the near future. There is a risk that the fixed percentage reimbursement of operating expenses will not cover all expenses after commissioning, going forward. In addition, EBIT was positively affected by a partial release of an offshore liability provision. The main liability risks in connection with our German offshore activities relate to development/construction delays and interruptions of grid connections to OWFs, considering the relatively new technologies applied therein.

As a significant number of offshore projects have entered into operational phase and solutions to start-up technology issues were successfully implemented, a part of the related provision could be released.

Reversal of impairment

Following impairment reviews of the regulatory assets in the Netherlands, it was decided to fully reverse the impairment on tangible fixed assets that was initially recorded in 2010. This impairment was based on, among others, the assumption of a 43% efficiency score for the extra-high voltage assets (and later changed to 85% on the total fixed assets). The regulator's proposal (late 2015) to increase the efficiency score to 90% indicated that the impairment loss recognised in 2010 no longer existed.

Energy and capacity revenues

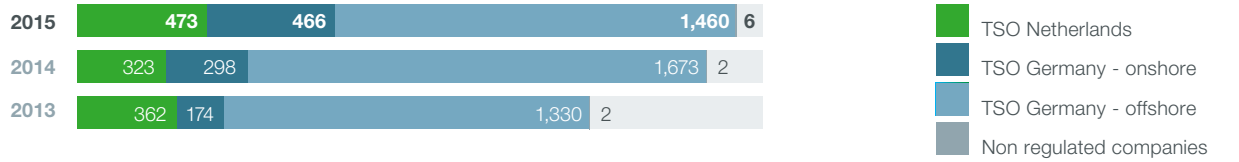
TenneT receives a reimbursement for energy and capacity expenses from the Dutch Regulator. Based on certain transitional provisions in the regulatory framework, both in 2014 and 2015 an additional reimbursement was received, which will not recur in the coming years.

Sale of APX

The 2015 EBIT included an incidental gain from the sale of APX shares (see note 5.2 of the financial statements).

Investments

Investments (EUR million)



Capex totalled EUR 2,405 million in 2015; an increase of EUR 109 million compared to 2014 investment levels, with EUR 473 million invested in the Netherlands and EUR 1,926 million in Germany.

In 2015, five German offshore grid connections were commissioned: BorWin2 (800 MW), DolWin1 (800 MW), HelWin1 (576 MW), SylWin1 (864 MW) and HelWin2 (690 MW). TenneT can now transmit a combined total of almost 4.3 GW of offshore wind energy to the German grid, more than half of the German government's targeted capacity of 6.5 GW by 2020. Furthermore, the onshore grid connection between Bayern and Thüringen in Germany, the so-called Frankenleitung, was completed at the end of 2015. Main investments projects under construction at the end of 2015 are:

- Netherlands: Randstad 380 kV; South-West 380 kV; North-West 380 kV; and Doetinchem-Wesel.
- Germany Onshore: the connection between Wahle (near Hanover in Lower Saxony) and Mecklar (in Hessen); and the connection between Brunsbüttel and Denmark (Westküstenleitung).
- Germany Offshore: OWF connections DolWin2, DolWin3, Borwin3 and Nordergründe.

For more information about our projects please see our project section of our website.

Following a decision by the German government in October 2015 to prioritise underground cabling for DC projects rather than building overhead lines, these projects will face significant changes. Moreover, the amended German Power Grid Expansion Act (EnLaG), defines certain AC projects as cabling pilot projects and we foresee a significant increase in the number of AC projects to be cabled. These developments are taken into account in TenneT's investment programme and will lead to an increase in our investment portfolio the coming years.

Cash flow developments

The development in cash flow from operating activities reflects the extent to which the Group's liquidity situation fluctuates, mainly due to movements in the working capital related to the clearing activities TSOs perform in accordance with the EEG and accrued grid expenses. EEG activities solely constitute a pass-through item comprising fluctuations in receivables and payables without any effect on the statement of income, consequently cash flow effects from EEG activities are presented separately.

In line with our increased results, also our operating cash flows showed an increase in 2015 compared to 2014. The majority of these proceeds were utilized to fund our substantial investment programme. In addition, cash flows from investing activities were impacted by the sale of APX. This sale resulted in a deconsolidation of APX's cash and cash equivalents of EUR 295 million, presented as investing cash outflow. Apart from our operating cash flows, we also acquired EUR 1.7 billion of additional long term funding in order (i) to fund our investment programme and (ii) to redeem a EUR 500 million senior unsecured bond upon maturity in February 2015.

(EUR million)	2015	2014	Change
Operating cash flows (excluding EEG working capital)	1,262	869	393
Investing cash flows	-2,838	-2,109	-729
Financing cash flows	1,073	242	831
	-503	**-998**	**495**
EEG working capital movements	121	869	-748
Net change in cash and cash equivalents	**-382**	**-129**	**-253**

Credit rating as of 31 December 2015 and 2014	Long-term rating	Short-term rating
Standard & Poor's	A– (stable outlook)	A-2
Moody's Investor Service	A3 (stable outlook)	P-2

Capital structure and financing

TenneT's objective is to have a solid financial position in anticipation of changes to our operations and the regulatory environment, which enables us to carry out our extensive investment programme. This is essential for the success of the energy transition in the Netherlands and Germany. Therefore, full access to financial markets at favourable conditions is a prerequisite. Such access is supported by the Company's current credit rating target of at least 'A-'.

The senior unsecured credit ratings for TenneT Holding B.V. remained unchanged from 2014 and were confirmed by Standard & Poor's and Moody's Investor Service on 14 December 2015 and 7 May 2015, respectively.

For 2015, the return on invested capital (ROIC) was 12.7%, a 1.7% increase compared to 2014 (11.0%), resulting from the increase in EBIT (see "EBIT" paragraph for further details).

Equity

In 2015, TenneT's underlying equity balance was further strengthened and amounted to EUR 3,803 million (2014: EUR 3,236 million) reflecting the current year's total income, which was partly offset by dividend distributions made to the shareholder of EUR 116.5 million and dividend paid to holders of hybrid securities (EUR 25 million, net of tax).

Net interest bearing debt position

The increase in underlying net interest bearing debt position (adjusted for EEG and cash balances) to EUR 5,703 million in 2015 from EUR 4,167 million in 2014, reflects increases in mainly the Group's ongoing capital investment programme.

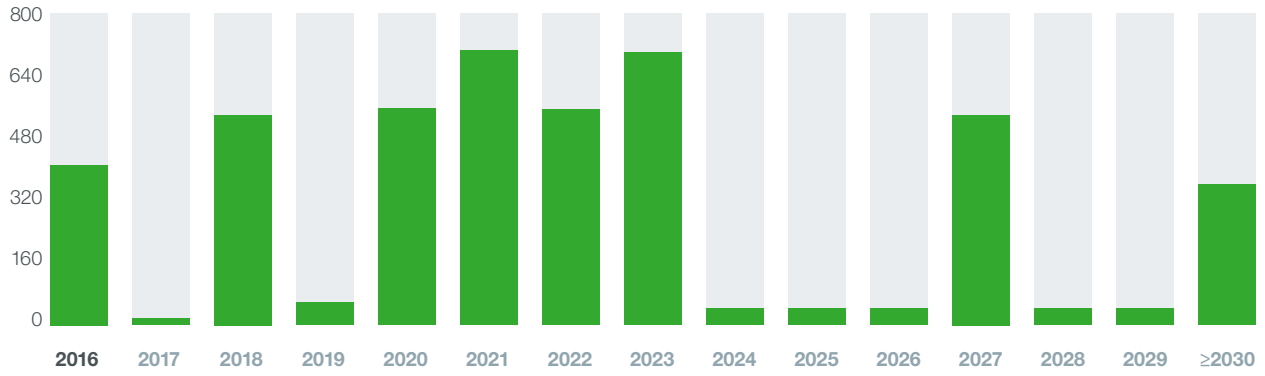
In June 2015, TenneT issued EUR 1 billion of euro-denominated green bonds. The issue comprised two tranches of EUR 500 million each, maturing in 2021 and 2027, respectively. The interest coupons are 0.875% and 1.750%, respectively.

Issuing green bonds

TenneT is the first Dutch non-financial company to issue euro-denominated green bonds. The initial offering of EUR 1 billion was subscribed twice and could grow into an extensive multi-billion euro programme for green investments to finance German and Dutch projects to connect offshore wind energy to the onshore grid. Through this innovative financing, TenneT is leading the way in a new form of corporate fundraising for a more sustainable future. Our view on green investing was also picked up and published in COP21 magazine, a magazine that was published on the occasion of the UN Climate Conference in Paris. We have also been nominated by CFI.co for Best Green Bond Issuer - Europe 2016.

The green bond issue in 2015 serves to fund the DolWin1, DolWin2 and DolWin3 offshore connections, which transmit renewable electricity from wind farms in the German North Sea to the German onshore electricity grid. As part of the green bond issue, independent sustainable rating agency Oekom positively verified the environmental and social performance of these offshore grid connections. Please see our financial publications for the first annual reporting on these green bonds.

Annual redemption of interest-bearing debt (EUR million)



In addition to the green bond issuance, we borrowed EUR 500 million from the European Investment Bank (EIB) (under an existing commitment), maturing in October 2032 with linear repayment starting in October 2018. An additional EUR 150 million was borrowed from the EIB (under an existing commitment), maturing April 2037, and repayable in equal annual instalments from April 2018 onwards.

Our aim is to have sufficient cash and commercial credit facilities at hand to meet our actual and expected obligations on a rolling 12-month basis at all times. To support our 12-month liquidity requirement, TenneT has a EUR 2.2 billion revolving credit facility (RCF) and EUR 150 million of committed undrawn EIB facility available as per 31 December 2015. The maturity date of the RCF was extended by one year to July 2020. In addition, TenneT had EUR 375 million of uncommitted credit lines available of which EUR 17 million was drawn at year end. Also EUR 353 million of commercial papers were outstanding. At 31 December 2015, there were no amounts outstanding under the RCF or the EIB facility. Our 12-month liquidity requirement was met throughout 2015.

To minimise the refinancing risk TenneT has a diversified maturity profile of senior debt. The graph shows TenneT's annual redemption profile at 31 December 2015. The effective interest rate of TenneT's entire debt portfolio (excl. hybrid securities) was 3.15% in 2015. The decrease compared to the previous year (3.71%) is due to the issuance of EUR 1 billion euro-denominated green bonds and EIB loans of EUR 500 million and EUR 150 million at favourable market rates.

For more information regarding TenneT's capital management policy and procedures and financial risks, please refer to the section 'Capital structure and financing' of the financial statements.

FFO/net debt

TenneT's internal policy is to maintain an FFO (funds from operations) to net debt ratio of at least 8%, which is consistent with the requirements of credit rating agencies Standard & Poor's and Moody's Investor Service. Following the increase of the FFO, the FFO/net debt ratio increased to 19.8% compared to 18.0% in 2014. In the coming years we expect the FFO/net debt ratio will decrease due to our large investment portfolio.

Regulatory framework and tariffs

Changes to the regulatory frameworks in the Netherlands and Germany directly affect our activities and financial performance; therefore it is important that our activities are supported by realistic, sustainable tariffs and a solid regulatory framework. However, the energy transition requires an adjustment of the existing regulatory regimes. As large-scale investments are necessary to integrate the generation of renewable energy, regulation should seek the right balance between the interests of affordability, reliability and sustainability and thus provide realistic incentives to efficiently manage capital and operating expenditures, while providing adequate returns to stimulate and ensure the financeability of new investments.

The allowed revenue of TenneT's regulated activities is set by the ACM in the Netherlands and the BNetzA in Germany. The current regulatory period is three years (2014 - 2016) in the Netherlands and five years (2014 - 2018) in Germany. In the Netherlands the next methodology decision is currently being prepared by ACM, whilst in Germany the incentive regulation is evaluated by German parliament with a view on the next regulatory period. In Germany, 2016 will be the base year for the next regulatory period (starting in 2019).

The allowed regulatory revenue set by the respective regulators comprises the regulatory reimbursement of the efficient capital and operational expenditure. The reimbursement for capex consists of a rate of return on investment as well as a depreciation allowance. The regulators use benchmarks (or similar techniques) to estimate efficient costs. TenneT is allowed to earn a return on the capital invested in its regulatory asset base. In the Netherlands, the return rate is based on a weighted average cost of capital. In Germany, the regulator distinguishes between a permitted rate of return on equity and a separate cost of debt reimbursement.

To determine the allowed opex, regulators generally distinguish between influenceable (e.g. maintenance costs) and non-influenceable costs (e.g. redispatch costs and other costs depending primarily on market prices and external developments instead of on TenneT's activities). The extent to which costs are influenceable determines the financial incentives to regulate these costs. Influenceable costs have higher cost incentives and for non-influenceable costs typically the difference between budgeted and actual costs are passed through in future transmission tariffs.

Challenges faced in 2015

We actively review the way we work to ensure continuous improvement. Looking back at 2015, we faced some important challenges. The table below summarises a selection of these challenges and the mitigating actions taken.

	Issue	Mitigating actions taken
Markets		
1	Offshore windfarms were not continuously able to feed the full amount of energy produced into our grid because of delays and interruptions in our offshore grid connections	Together with our suppliers, we have gained further experience and knowledge of applying new technologies. We have set up a number of projects to speed up this process and to standardise our design, procedures and our employees' skills.
2	The number of redispatch measures and the amount of energy redispatched continued to grow. As a result the system services expenses increased by EUR 0.7 billion in 2015 compared to 2014.	We try hard to expedite grid expansion projects as fast as possible (DC and AC). Additionally, we have been discussing changes in the market mechanisms and the introduction of a coordinated process to determine the of capacities in Central Europe (in connection with the proposed introduction of congestion management for Austria).
Society		
1	The major power outage on March 27 affected one million end-users in Amsterdam and other parts of the province of Noord-Holland. The outage was caused by a short-circuit in our Diemen high-voltage substation.	We performed a root cause analysis to gain key learnings from this event. We will apply these learnings in the design and application of future processes and procedures.
2	We experienced opposition to number of our grid expansion projects, for example in Oosterhout in the Netherlands, and to SuedLink in Germany. A number of local citizens, NGOs and politicians are objecting to these projects.	A root cause analysis is being performed to learn from this event and to determine adequate actions in order to avoid similar events in the future.
Environment		
1	In previous years we introduced newly designed high-voltage pylons, so-called Wintrack pylons, reducing our environmental footprint. In 2015, we faced corroded thread-ends on certain Wintrack pylons.	We performed a root cause analysis and are conducting frequent periodic inspections to monitor the condition of the pylons. Additional clamps will be fitted to existing masts. Flange design has been modified and will be introduced for new masts.
2	The installation of high temperature low sag conductors (HTLS) on the one hand allows us to transport more electricity through the existing grid, but on the other hand has caused higher grid losses and increased our carbon footprint.	We are currently comparing the financial advantage of HTLS conductors in relation to the impact on our carbon footprint to be able to justify and explain our rationale for choosing them.

	Issue	Mitigating actions taken
Employees		
1	Overall we had a number of lost-time incidents, i.e. cases in which an employee was injured and possibly resulted in at least one day's absence from work.	We investigated the incidents, identified the root causes and implemented systematic measures, such as adjusting back-to-work meetings to address this. Starting in 2015, we also measure the number of incidents under investigation; the so-called investigation index. Every incident must be investigated within two weeks of occurring.
2	In Germany, we were unable to fill vacancies for highly-qualified personnel as quickly as we would like.	We are working with universities, polytechnics and other institutes of higher education to source highly-qualified employees more quickly. We also take part in energy fairs and events to promote ourselves as an employer of choice.

Corporate governance

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

Corporate governance structure

TenneT's corporate governance bodies comprise the Executive Board, Supervisory Board and General Meeting of Shareholders. Our internal audit department and external auditor also play an important role in the corporate governance structure.

Executive Board

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

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

Supervisory Board

The Supervisory Board of TenneT Holding B.V. oversees TenneT's general policies and strategy. It carries out its duties in the interests of the company and its stakeholders and also takes into account relevant aspects of corporate social responsibility (CSR). TenneT has a two-tier board structure as specified in the Electricity Act.

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

General Meeting of Shareholders

All shares in the capital of TenneT are held by the Dutch state, which is represented by the Ministry of Finance. Under the Electricity Act, only the Dutch state may hold voting interests in the company. A General Meeting of Shareholders is held within six months of the end of each financial year. The agenda includes a discussion on the integrated annual report, adoption of the financial statements and a dividend proposal. The meeting also discharges the Executive Board and Supervisory Board members from liability from their respective activities in the past year. Other shareholder meetings are held as and when deemed necessary by the Executive Board, Supervisory Board or shareholder.

External auditors

The General Meeting of Shareholders has the power to appoint external auditors to audit the financial statements prepared by the Executive Board. The external auditors report to the Supervisory Board and the Executive Board. They present their findings in an independent auditor's report and assurance report, management letter and audit results report.

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

The external auditors attend relevant meetings of the Audit Committee. They also attend Supervisory Board meetings when the management letter or the external auditor's report on the financial statements are discussed and the financial statements are approved.

Deviations from the Corporate Governance Code

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

Executive Board

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

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

Supervisory Board

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

III.5. If the Supervisory Board has more than four members, the Corporate Governance Code stipulates it shall appoint from among its members an Audit Committee, a Remuneration Committee, and a Selection and Appointments Committee. The TenneT Supervisory Board has combined the tasks of the latter two key committees in a Remuneration and Appointments Committee. The Supervisory Board has also established an Audit Committee and a Strategic Investments Committee, both made up of Supervisory Board members.

III.6.6. No delegated Supervisory Board member is in office at TenneT.

III.6.7. A Supervisory Board member who temporarily takes charge of the company in the event of the unavailability or incapacity of the Executive Board will in principle step down temporarily from the Supervisory Board. On completion of these managerial duties, the Supervisory Board and the General Meeting of Shareholders will decide whether this director can re-join the Supervisory Board. The duration of the director's managerial duties may be one of their considerations.

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

III.8.1 to III.8.4. These provisions concern single-tier management; as TenneT has a two-tier system, these provisions do not apply.

General Meeting of Shareholders

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

- IV.1.1. Non-structure-regime company
- IV.1.2. Voting rights in respect of financing preference shares
- IV.1.3. Public disclosure of a bid
- IV.1.7. Registration date of voting rights
- IV.2.1 to IV.2.8. Depositary receipts for shares
- IV.3.1 Dealings with analysts, financial press and institutional investors
- IV.3.7. Shareholder circular
- IV.3.11. Protective mechanisms
- IV.3.12. Voting proxies and voting instructions
- IV.4.1 to IV.4.3. Responsibility of institutional investors
- IV.3.13. Policy governing bilateral contacts with shareholders.

Future changes in the Corporate Goverenance Code

In 2016 we will assess the impact of the revised Dutch Corporate Governance Code as proposed by the Dutch Corporate Governance Code Monitoring Committee.

Risk management

TenneT considers risk management and internal control to be integral parts of an effective management control system. In pursuing our objectives, we operate within the boundaries of our carefully delineated financial and non-financial risk policy.

The company has defined its risk appetite along seven dimensions: security of supply, safety, financial performance, customers, reputation, environmental issues and compliance. TenneT's risk appetite is represented by a risk matrix, which is used to determine and score the impact and likelihood of identified risks within the company. A copy of the TenneT risk matrix is available in the enclosure of this report.

Risk management and internal control

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

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

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

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

Developments

In 2015, we initiated a number of improvements to the risk management and internal control system.

We held various risk analysis workshops in strategic and operational areas to help the business identify and assess risk. For the annual strategic risk assessment, we took into account input from external parties such as our auditor, our shareholder, Ministry of Economic Affairs and a selection of peer companies to gain a more 'outside in' view of our strategic risk position.

Our Internal Control Framework (ICF) was further developed. We further integrated our Risk Management and Internal Control functions to strengthen the interaction between identifying and adequately managing risks. In 2015, we conducted control self-assessments of the reporting risks in the Netherlands and Germany and further improved the Letter of Representation (LOR) procedure.

We also furthered the project risk management system for large infrastructure projects. All segments approved and adopted the updated project risk management methodology, which includes calculating identified risks into a risk budget and a uniform risk reporting format. Given our large investment programme project risk management will continue to be an important focus area in the coming year.

Risk management disciplines within TenneT

We make a distinction between three main types of risk management activities:

- Corporate risk management & internal control;
- Risk & portfolio management;
- Project risk management.

Corporate risk management & internal control

Risk management & internal control is aimed at managing those risks that threaten TenneT's strategic and operational objectives, and at being 'in control' of its operations by an adequate internal control framework.

Our risk management system is based on the international COSO II model (Committee of Sponsoring Organisations of the Treadway Commission). This is widely accepted as a leading enterprise risk management model for larger companies.

The COSO II model takes the company's strategy as a starting point and defines four types of risk: strategic, operational, reporting and compliance.

Risk & portfolio management

Risk & portfolio management is part of TenneT's asset management process and is key to the risk-based process for making investment decisions. Grid constraints are identified by analysing the grid components and failures. In the Netherlands, the results of these analyses are summarised in the bi-annual investment plan, which is reviewed by the Dutch regulator. In Germany, TenneT and the other German TSOs jointly draw up annual onshore and offshore grid development plans which require approval from the German regulator.

The constraints are assessed on the risk they pose to TenneT's business value framework. Should the risk exceed a predefined level, a mitigating measure is proposed and included in the investment portfolio. The mitigating measures are prioritised each year.

Project risk management

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

We use our project risk management system to review and manage risks and changes in the risk position. Projects are classified and assigned to three categories of project risk management: simple, medium and complete. For each category the scope of the project risk management level is described in an organisational handbook, which applies to all operating segments within TenneT.

Roles and responsibilities

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

First line of defence: Business

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

Second line of defence: Risk management & internal control

Corporate Risk Management is responsible for coordinating, developing and monitoring TenneT's risk management & internal control system and supports and challenges the business with risk management and internal control matters. Corporate Risk Management & internal control is also responsible for independent risk reports to the Executive Board, Supervisory Board and Audit Committee.

Three lines of defence model

1st line	2nd line	3rd line
Business	Risk Management & Internal Control	Internal Audit
Manage risks on a daily basis and provide assurance regarding the effectiveness of controls	Steer, monitor and support line management in terms of managing risks and developing and maintaining an adequate internal control framework	Conduct audits and test the internal control systems to provide additional assurance regarding the effectiveness of controls

Third line of defence: Internal audit

Internal audits are fundamental to TenneT's risk management and internal control system. These audits provide insight into how and to what extent we control the risks that may jeopardise our strategic and other objectives. These audits provide management with additional assurance on the effectiveness of internal controls.

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

The Internal Audit department reports its findings and status of follow-up actions to the Audit Committee and the Executive Board every quarter.

Fraud and integrity

TenneT aims to operate in a consistent and reliable way, independent of suppliers and electricity producers, and providing all parties with guaranteed, non-discriminatory access to our transmission grid. We operate in a straight-forward and predictable manner so our stakeholders can rely on us at all times. Our Company Code and the Rules of Conduct define the way of working at TenneT and are published on our company website.

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

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

In 2015, three integrity breaches were identified at TenneT. Two related to the unauthorised sale of TenneT materials. The third was related to inappropriate use of confidential information. Internal investigations were carried out and corrective actions were taken. Furthermore, we are analysing if additional measures can help to prevent similar cases in the future.

TenneT has a sexual harassment committee and a whistle-blower procedure for internal and external integrity issues. In the Netherlands, employees can report any concerns in confidence to a trusted counsellor ('vertrouwenspersoon'). In Germany, this role is covered by the compliance officer. Our whistle-blower procedure and cases for 2015 are published on the company's website.

Key corporate risks

An overview of the main corporate risks in 2015 is provided below, including the actions to mitigate these risks. The risks are categorised into the four types of risk as defined by the COSO II model: strategic, operational, reporting and compliance (TenneT's financial risks, including regulatory risks are presented separately in the notes to the financial statements '6.7 Financial risk management').

Strategic risks

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

A strategic risk assessment is performed annually. Strategic risks are managed by the Executive Board who evaluates the development of the risk and the existence of control activities. The strategic risk position is shared and discussed with the Supervisory Board and the Audit Committee.

Based on the strategic risk assessment conducted in November 2015, the most important strategic risks – based on our assessment of their likelihood and impact – are presented in the following table.

Strategic risk	Risk mitigating actions	Trend in risk	Strategic goal & potential impact if risk occurs
Divergence of company objectives and political sentiments:		→	**Engage Stakeholders**
• TenneT's European strategic objectives versus national political interests • Political conflicts of interest regarding national energy strategy between the Netherlands and Germany • Disruptive decisions on EU level	• Invest in relationship with relevant policy stakeholders (shareholder, regulators, ministries of economic affairs) • Alignment/involvement of future strategy and investments with stakeholders at an early stage • Active involvement at European interest groups (e.g. ENTSO-E)		• Threats in development of integrated and sustainable NWE electricity market
Significant delay in execution of certain projects:		→	**Secure supply**
• Delays in executing the investment programme due to lengthy permit/licensing procedures, insufficient project control or non-acceptance and poor public perception of new projects • Insufficient supplier capacity and/or number of suppliers to realise investment programme	• 'Project Management Committee' and 'Asset Chain Initiative' programme in the Netherlands and Germany to further standardise designs, processes, reports and employee skills • Active stakeholder management to speed up the permit and licensing procedures • Supplier market consultation/supplier information days to discuss future needs		• Constraints in security of supply, potential blackouts or interruptions
Blackout caused by TenneT:		↑	**Secure supply**
• Risk of incidents/interruptions as a result of increased dynamics in load and generation mix, combined with market developments and integration of the European energy landscape	• Implementation of improved IT systems and innovative processes to better anticipate the changed grid situation • Increase volume contracts of control and reserve power and redispatch capacity • Improve cooperation with other TSOs in order to anticipate the changed European energy landscape		• Erosion of our reputation and possibly impacting our license to operate
Adverse changes in Dutch/German regulation or changes in regulatory parameters:		→	**Deliver shareholder value**
• Changes in regulation or regulatory parameters causing loss of cash flow and/or value • National regulatory approach and perspective in European playing field	• Maintain and invest in relationships with regulators and governments • Being pro-active towards regulators and governments		• Unable to fulfil maintenance and replacements requirements to ensure a minimum grid quality standards
Inability to achieve sufficient capex efficiency:		↓	**Deliver shareholder value**
• Budget overruns within large offshore and onshore projects • Public acceptance considerations driving up investments costs	• Appropriate governance arrangements with respect to project approval and execution • Close project control to ensure that large-scale infrastructure projects are realised within budget		• Unable to generate a reasonable return on invested capital

Strategic risk	Risk mitigating actions	Trend in risk	Strategic goal & potential impact if risk occurs
Lack of sustainable access to equity:		↑	**Deliver shareholder value**
• Inability to raise additional equity in a timely fashion in case of changes in investment portfolio or negative regulatory developments	• Active financing strategy to create and maintain an optimal capital structure as well as to diversify funding sources and manage financial risks • Proactive approach of potential investors/ active discussion with shareholder to contribute additional equity • Lobbying activities to ensure that regulatory frameworks remain adequate to safeguard returns to investors		• Not capable to fulfil our future investment portfolio

The strategic risks in 2015 are substantially similar to those of 2014. In 2015, we faced the biggest ever power outage in the Netherlands (see section Society for more details), as result the strategic risk 'blackout caused by TenneT' entered as a key risk for 2015.

In prior year the majority of key risks were related to realising our investment programme: delays; inefficiencies in construction or operations; technological failure; and problems with public acceptance, which can have a substantial impact on achieving our strategic objectives. The likelihood and impact of these risks is generally lower in 2015, among others following the successful completion and commissioning of a number of offshore connections with new DC technology. Nevertheless, given the large investment programme and pressure on timely completion to safeguard the continued security of supply, managing possible project delays continues to be a high priority.

The risk of not being able to raise sufficient equity capital to finance our investment programme increased in 2015, because of the size of the future on- and offshore investment programme and the decision for more underground cabling in Germany, which is substantially more expensive than conventional overhead lines.

The risk with regard to external factors such as adverse changes in the regulatory framework and conflicting decisions and/or views of our external stakeholders continuous to be high. A robust regulatory environment and solid strategic alignment with our stakeholders continue to be important cornerstones for safeguarding the realisation of our strategy.

Operational risks

The operational risks affecting the various departments are identified and analysed each quarter by Corporate Risk Management in conjunction with the responsible senior managers and their finance & control teams. The TenneT risk matrix is used to determine the likelihood and impact of the identified risks and establish whether they are within TenneT's risk appetite. The respective departments produce quarterly reports detailing the status of operational risks and their progress in controlling them. In addition, specific operational risk reports are drawn up periodically under the German Business Control and Transparency Act and the German Accounting Law Reform Act. Each quarter, a summary of the most important operational risks for TenneT Holding is reported to the Executive Board.

The table on the next page presents the most important operational risks of TenneT Holding.

Operational risk	Risk mitigating actions
Not realising planned portfolio (maintenance and investments):	
• Gap between planned and realised portfolio. Risk of the condition of the grid deteriorating in the long-term.	• Increased rate of replacing crucial components • Internal taskforces to improve internal colloboration within departments (e.g. Tactical Planning taskforce at TenneT Netherlands) • Improvement of project reporting cycle/project control and evaluation of projects (Plan-Do-Check-Act)
Inability to achieve opex efficiency:	
• Opex structurally higher than regulatory revenue allowance	• Increased focus on internal approval of budgets and measures taken to increase efficiency
• Insufficient awareness in organisation about cost efficiency	• Close monitoring of opex performance (actuals versus budget)

Reporting risks

Our ICF is designed to support and enhance the realisation of our objectives, fulfil legal obligations and to provide reasonable assurance regarding the reliability of our internal and external reporting. The ICF programme supports responsible management by identifying, documenting, monitoring and, if necessary, improving the control framework. Key risks and controls are defined in close cooperation between responsible business owners, controllers and risk management & internal control. They use a quantitative approach that analyses the profit and loss statement (P&L) and the balance sheet on significant accounts, and a qualitative approach by determining critical factors affecting specific process goals and objectives. In 2015, we started testing key controls through a control self-assessment carried out by control owners and coordinated by internal control experts. The outcome of these assessments is direct input for the LOR process whereby management provides assurance on the adequacy of the internal control framework for its area of responsibility. Identified issues are reported to Internal Control, who monitor and secure follow up on mitigation by assigned business owners.

The following table presents the most important reporting risks of TenneT Holding.

Reporting risk	Risk mitigating actions
Reporting risk:	
• Financial statements do not give a true and fair view of the company's financial position, financial performance and cash flows	• Use of internal control frameworks (Business, IT, Tax framework), including internal control statements
• Incorrect (regulatory) reports or information to BNetzA, ACM and/or tax authorities	• External and internal audit reviews and follow-up on findings • Use of internal accounting manuals

Compliance risks

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

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

The following table presents compliance risks and mitigating actions, grouped in three areas.

Compliance risk	Risk mitigating actions
General/legal compliance:	
• Non-compliance with European or national laws and regulations, e.g. in the area of tendering and energy markets	• Active involvement of experts from Legal Affairs, Procurement, Human Resources, Safety & Security, Regulation, etc.
• Non-compliance with bilateral agreements between TenneT and other TSOs, suppliers, customers, etc.	• Adequate registration of decisions and contracts by Legal Affairs and other involved departments
• Non-compliance with labour laws and agreements	• Involvement of external specialists (e.g. legal experts) when deemed necessary
• Non-compliance with permits and licenses	• Training and awareness programmes
• Non-compliance with health, safety and environment laws and regulations	
Financial compliance:	
• Non-compliance with IFRS, local GAAP, the Dutch Corporate Governance Code, the German Control and Transparency in Business Act, the German Accounting Law Reform Act, etc.	• Active involvement of experts within Finance & Control, Treasury, Tax and Legal departments
• Non-compliance with financing agreements	• Frequent knowledge update by means of training, external audit/ expert reviews, etc.
• Non-compliance with financial legislation	• Availability of accounting manuals, treasury statute, etc.
• Non-compliance with tax laws and regulations	• Use of outside expertise, if and when necessary
Technical compliance:	
• Non-compliance with electricity laws and technical codes, ENTSO-E operational handbook, electrical safety regulations and standards, etc.	• Regular assessments by the technical compliance officer • Cooperation with regulatory authorities by the Corporate Asset Owner department • Involvement of authorised electrical safety experts and technical strategists

Statements of the Executive Board

In-control statement

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

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

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

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

The risk management and internal control system does not provide absolute assurance that corporate objectives will be achieved, nor does it give absolute assurance that material errors, losses, fraud or violations of laws and regulations will not occur in the operational processes and/or the financial reporting.

We confirm that the financial statements for the period 1 January to 31 December 2015 have, to the best of our knowledge, been prepared in accordance with IFRS as adopted by the EU and with Part 9, Book 2 of the Netherlands Civil Code, that the disclosures in the financial statements give a true and fair view of TenneT's assets, liabilities, financial position and results as a whole, and that the disclosures in the annual report give a true and fair review of the performance, results and position of TenneT, together with a description of the most significant risks and uncertainties faced by TenneT.

Statement of responsibility

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

Arnhem, 3 March 2016

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

* Statutory Director

J.M. (Mel) Kroon
Chair Executive Board

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

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

Executive Board

J.M. (Mel) Kroon*
Chair Executive Board/Chief Executive Officer

1957, Dutch
Initial appointment: 2002

Related functions:
- Chair Supervisory Board TenneT TSO GmbH
- Member Supervisory Board EPEX SPOT S.E.
- Member Supervisory Board APX Holding B.V. (until 23 September 2015)
- Chair Supervisory Board NOVEC B.V.
- Chair Supervisory Board TSCNET Services GmbH (until 31 December 2015)
- Member Board CASC.EU (until 1 September 2015)

Other positions:
- Member Supervisory Board Havenbedrijf Rotterdam N.V.
- Member Supervisory Board HTM Personenvervoer N.V. (until 1 July 2015)
- Member Board Dutch-German Chamber of Commerce

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

1964, German
Initial appointment: 2014

Related functions:
- Member Assembly ENTSO-E
- Chair Board TenneT TSO GmbH

B.G.M. (Ben) Voorhorst*
Member Executive Board/Chief Operating Officer

1959, Dutch
Initial appointment: 2006

Related functions:
- Member Board TenneT TSO B.V.
- Member Supervisory Board NOVEC B.V.
- Member Board Netbeheer Nederland
- Member Board Nederlandse EnergieData Uitwisseling
- Member Cyber Security Council
- Vice-chair Board ENTSO-E
- Member Cooperation Board TSCNET Services GmbH

O. (Otto) Jager
Member Executive Board

A.A. (Lex) Hartman
Member Executive Board

W. (Wilfried) Breuer
Member Executive Board

O. (Otto) Jager*

Member Executive Board/Chief Financial Officer

1970, Dutch
Initial appointment: 2013

Related functions:

- Member Board TenneT TSO B.V.
- Member Supervisory Board TenneT TSO GmbH

A.A. (Lex) Hartman

Member Executive Board/
Director Corporate Development

1956, Dutch
Initial appointment: 2008

Related functions:

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

W. (Wilfried) Breuer

Member Executive Board/Director Offshore

1965, German
Initial appointment: 2014

Related functions:

- Managing Director TenneT Offshore GmbH
- Member Cigre German Committee

* Statutory director

Supervisory Board report

The rapid growth in demand for renewable energy, and its integration into a balanced and stable electricity grid, requires extensive investments and carefully considered decisions. The Supervisory Board helps to ensure TenneT makes the right decisions by overseeing and advising the Executive Board.

Supervision and advice

Specifically, the Supervisory Board is responsible for assessing whether the decisions taken by the Executive Board are in compliance with the company's strategic, societal, financial and technical objectives. The Supervisory Board also devotes attention at every meeting to TenneT´s safety performance and the security of the electricity supply. Other topics it discussed in 2015 are outlined below.

Security of supply and investments

Maintaining a high level of grid reliability and supporting the transition to renewable energy is a primary objective for TenneT. As such, the investment portfolio was an area the Supervisory Board regularly discussed during 2015. The importance of this focus on grid reliability, was highlighted on 27 March, when parts of the province North Holland suffered a power outage.

Also on the agenda during the year were the substantial and complex investments to strengthen the onshore grids in Germany and the Netherlands, the offshore grid connections and interconnector capacity with other countries. In line with its duties, the Supervisory Board assessed the strategic, societal, monetary and technical aspects of these investments, as well as judging their impact on TenneT's ongoing financial health. As some of these factors may interconnect or conflict, the Supervisory Board carefully considers all aspects and alternatives.

Safety

The Supervisory Board makes TenneT's safety culture a primary area of focus, particularly as regards the company's LTIF, which is benchmarked against the most relevant peer group and the overall best-performing companies.

The Supervisory Board continued to closely monitor the implementation of TenneT's Safety Vision 2018 – introduced in 2014 – and welcomes the progress made during 2015 and the considerable decrease in LTIF compared to previous years.

During its meetings, the Supervisory Board discussed individual safety incidents, as well as the lessons learnt and best practices from other industries.

Strategy

In the first half of 2015, TenneT reviewed the company's strategy for the next five years. The Executive Board was supported in this process by an internal team and external experts in various fields. During the process, the Supervisory Board, Ministry of Finance, Ministry of Economic Affairs and senior management were consulted on several occasions, resulting in the developments of a revised TenneT strategy, 'Enabling the Change'. The Supervisory Board welcomes the fruitful discussions that were held as part of this process.

Risk management

Individual interviews were conducted with the members of the Supervisory Board as part of the 2015 annual strategic risk assessment. In a subsequent session, the Executive Board and the Supervisory Board discussed a preliminary set of strategic risks. For each of these, the relative probability and possible impact on the strategy of the company were considered. The Executive Board subsequently finalised the set of strategic risks.

Quarterly project reports, which focus on the progress of large projects, were reviewed by the Strategic Investments Committee and subsequently by the Supervisory Board.

Particular focus was placed on project management, with specific attention paid to timely delivery, risks of delays and interruptions and the societal demands which can lead to delays and/or projects becoming more expensive.

Financing

TenneT's financing position, its financing structure and the overall financing plan were also assessed by the Supervisory Board. It took into account a range of factors, including shareholder objectives, the long-term continuity of the company and short-term liquidity needs. Topics discussed included the financing structure of TenneT Group, cash flow and liquidity forecasts, equity solutions and several debt financing instruments.

Offshore

In 2015, the Dutch government appointed TenneT (in principle) as the responsible party for developing and operating the Netherlands' offshore grid connections, which will make 3,500 MW of renewable wind energy available by 2023. A major development which was discussed by the Supervisory Board.

Offshore development in Germany is progressing rapidly. During 2015, five DC offshore grid connections were put into operation, with a joint capacity of 4,300 MW. The challenging transitional work this involved was intensively discussed by the Supervisory Board. Furthermore, the challenges of operating offshore grid connections has been focus point. In addition, the regulatory compensation for operating expenses associated with these investments was discussed at length.

Integrated reporting and audit

TenneT's financial statements for the 2014 financial year, the 2015 internal quarterly reports and the 2015 interim results were all discussed by the Supervisory Board during the year. The meetings also covered the management letter from the external auditor; the independent auditor's report; internal audit reports; the ICF and results from internal risk and control assesments; the 2016 budget and the medium-term plan for 2016-2018. The Supervisory Board welcomed TenneT's achievements in integrated reporting, which again resulted in a higher ranking on the Transparency Benchmark (2014, published in 2015: 22nd place; 2013: 30th place; 2012: 101st place).

Other topics

Other topics covered by the Supervisory Board's meetings in 2015 included: CSR reports; the Dutch legislative process 'STROOM' and a White Paper prepared by the German Federal Ministry for Economic Affairs and Energy regarding the future electricity market. In addition, the Supervisory Board discussed the development of power exchanges, the location and building concept for TenneT's new German headquarters; the internal 'Power to Perform' performance management programme and the results of the latest Employee Survey.

Selection, appointments, remuneration and performance

Selection and succession processes within TenneT's Executive Board are an important task of the Supervisory Board. As part of this, it conducts performance appraisals for the members of the Executive Board.

The Executive Board consists of six members, four statutory directors and two non-statutory directors. In the second half of 2015, the Supervisory Board nominated Mr Voorhorst for re-appointment as COO of TenneT Holding B.V. Before making this nomination, the Supervisory Board conducted a thorough evaluation of Mr Voorhorst's performance and considered the assessment criteria generally used for board appointments, including the consideration for diversity in experiences, skills and knowledge of the board as well as gender equality targets.

As well as assessing the performance of the Executive Board, the Supervisory Board discussed the yearly review of Tennet's wider senior management, including succession planning. Next to matters such as selection, appointments and performance, the Supervisory Board frequently discussed issues relating to remuneration. In 2015, specific topics included the variable remuneration of the statutory Executive Board members in relation to their performance and the 2015 remuneration report.

A topic of extensive discussion was the proposal by the Dutch government – TenneT's shareholder – to decrease the variable remuneration of statutory directors of the Executive Board. The Supervisory Board in principle is in favour of decreasing the variable remuneration and it has been advocating a lower variable remuneration for several years, but any implementation has to be considered carefully. Accordingly, the Supervisory Board discussed this topic closely with the shareholder.

In 2015, the Supervisory Board was extended from five to six members, with the appointment of Mrs Griffith on 1 July 2015. An extension of the Supervisory Board had been suggested by the shareholder to facilitate appointment of member with ample experience in the public domain. An intensive selection process, which involved the shareholder, led to her nomination and appointment.

Mrs Griffith's appointment reflects TenneT's aim for its Executive Board and Supervisory Board to be comprised of people with diverse experiences, skills and knowledge. TenneT values this diversity and believes it contributes positively to the way situations are assessed and decisions are made. TenneT is aware that women are under-represented in the Executive Board and is taking this into account for future appointments. TenneT will make serious efforts to comply with the gender equality targets set by the European Commission to ensure greater board-level gender diversity by 2020.

Composition and meetings of the Supervisory Board

Composition of the Supervisory Board

Members of the Supervisory Board are appointed for a term of four years with a maximum of three terms. Details on this can be found on TenneT's website. Many factors are considered in the composition of TenneT's Supervisory Board, including the nature of the company, diversity and the required expertise and background of its members.

In accordance with the Corporate Governance Code, all Supervisory Board members are independent. Furthermore the Supervisory Board complies with the Electricity Act, which stipulates that the majority of Supervisory Board members have no direct or indirect links with legal entities (or shareholders thereof) engaged in the production, purchase or supply of electricity or gas. It is noted that Mr Zwitserloot was a member of the Supervisory Board of EBN B.V. until 16 April 2015. Furthermore, certain Supervisory Board members hold positions at companies which have a customer or supplier relationship with TenneT. The respective Supervisory Board members have not been involved in any business dealings between the respective companies and TenneT. Contract reviews, negotiations or awards between the companies were conducted at the appropriate business levels and in the ordinary course of business.

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

Supervisory Board meetings

The Supervisory Board held six regular meetings in 2015. All meetings were attended in full, except for one, which had one absentee. On this occasion, the individual shared his views on the topics in the agenda with the vice-chairman of the Supervisory Board before the meeting. In addition to these regular meetings, a telephone conference was held to discuss the amendment of the articles of association and another extra meeting took place with regard to the strategy review.

For Supervisory Board meetings, the relevant topics were prepared by the three committees as described below. All meetings of the Supervisory Board and its committees were attended by the company secretary who took minutes at each one.

Supervisory Board Committees

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

The Chairman of the Supervisory Board does not act as chairman of any of the committees. Each committee advises the Supervisory Board on delegated subjects. At Supervisory Board meetings, each committee chairman reports on subjects discussed by the respective committees, with documents and minutes submitted to the Supervisory Board ahead of its meetings.

During 2015, the committee meetings were fully attended and two additional telephone conferences were held by the Remuneration and Appointments Committee.

Mr Zwitserloot is a member of the Aufsichtsrat of TenneT TSO GmbH, the German equivalent of the Supervisory Board.

Audit Committee

The Audit Committee monitors the company's financial reporting, including quarterly and annual reports, financing policy, risk management and internal control system, internal audit, the independent external audit of the financial statements and the evaluation of the external auditor. At the end of 2015, the appointment of EY as the company's external auditor was extended by two years.

In 2015, the Audit Committee consisted of Mr Verboom (Chair) and Mr Veenman. It held four meetings attended by the Chair of the Executive Board, the CFO, the senior manager for Internal Audit and the senior manager for

Corporate Control. These meetings were also attended by the company's external auditor. Next to these regular meetings, one extra telephone conference was held regarding the Financing Plan 2015.

Remuneration and Appointments Committee

The Remuneration and Appointments Committee is tasked with the company's remuneration policy and the remuneration of individual board members. The Remuneration and Appointments Committee also establishes criteria for appointing new board members and supervises the recruitment process. Furthermore it is tasked with the management review and possible nominations for re-appointment of board members.

In 2015, the Remuneration and Appointments Committee consisted of Mrs Hottenhuis (Chair) and Mr Veenman and, from the date of her appointment (1 July 2015), Mrs Griffith. The committee held five meetings, in the presence of the Chairman of the Executive Board. Discussions on the remuneration report were conducted in the presence of the CFO. Two additional telephone conferences were held regarding the shareholder's wish to reduce the variable remuneration, as well as the compensation of pensions for employees with an annual income above EUR 100,000.

Strategic Investments Committee

Througout the year, the Strategic Investments Committee reviews the investment with a value above EUR 50 million as submitted by the Executive Board. It assesses whether such proposals are compatible with the company's economic, financial and technical objectives, as well as the risk profile and stakeholder impact. The Strategic Investments Committee also monitors timeliness, quality, cost efficiency and associated risks of large projects, and advises the Supervisory Board on investments.

In 2015, the Strategic Investments Committee consisted of Mr Zwitserloot (Chair) and Mr Fischer. The committee held five meetings, each with several members of the Executive Board. Mr Veenman attended most of the meetings as a guest.

Supervisory Board performance appraisal

The Supervisory Board evaluated its own performance (a Board Effectiveness Review) in the second part of 2014, with the support of an external advisor. This counsel also held individual meetings with the members of the Supervisory Board to discuss personal feedback. The results of the Board Effectiveness Review were shared with the Executive Board. In February 2015, the Supervisory Board discussed the follow up on the review. As a result, the talent management processes was addressed in the course of 2015 and the regular management review was not only be discussed in the Remuneration and Appointments Committee but in the full Supervisory Board. Feedback from the discussions within the committees to the full Supervisory Board was determined as another focus point and the need for further informal contact with the Executive Board and further contact with senior management was recognised.

Permanent education

After they are appointed, new Supervisory Board members participate in a programme introducing them to TenneT's key business areas.

The Supervisory Board considers ongoing education of this kind to be of utmost importance. In 2015, three in-depth workshops were held, focusing on market coupling, IT and pension liabilities. In addition, the Supervisory Board members undertake site visits every year. In 2015, they visited construction sites in Apeldoorn and in Beverwijk and the cable factory of one of TenneT's suppliers. These site visits and workshops (presented by the relevant senior managers) are a good opportunity for the Supervisory Board members to meet with TenneT employees across the company.

Contact with the shareholder

Given the developments within the company as well as externally and given the role the shareholder wants to have towards the company, there was frequent contact with the shareholder outside of the General Meeting of Shareholders.

The shareholder and the Supervisory Board conferred about the selection process and nomination of a sixth member to the Supervisory Board, which resulted in the appointment of Mrs Griffith. Furthermore the Supervisory Board nominated Mr Voorhorst for re-appointment as COO of TenneT. Mr Voorhorst was appointed by the shareholder for a renewed four-year term, as from 1 December 2015.

Furthermore the remuneration of the Executive Board was discussed, specifically the variable remuneration that is an element of overall remuneration. The shareholder expressed its wish to lower the variable element to 20%. The shareholder stated that it will respect the existing contracts with statutory directors of the Executive Board and asked the Supervisory Boards of all state-owned enterprises to address this topic.

Both the Supervisory Board and Executive Board expressed their willingness to lower the variable element based on a fair conversion. These discussions are ongoing.

Another key topic in 2015 was the amendment of the company's articles of association. The shareholder wished to introduce generic articles of association for all state-owned companies. In recent years, extensive discussions between the shareholder and the Supervisory Board have taken place. An important element was safeguarding the financial position of the company in case of a capital withdrawal by the shareholder. Commitment of the shareholder regarding this concern were appreciated by the Supervisory Board. Following the decision of the shareholder to amend the company's articles of association, this was executed in September 2015.

Furthermore the future dividend policy were discussed by the Supervisory Board and the shareholder, e.g. the appropriate level in light of future equity needs of the company, weighing budgetary expectations of the shareholder against the long-term capital needs of the company.

The Supervisory Board of TenneT was also consulted by the shareholder with regard to the envisaged framework for remunerating members of the supervisory boards of state-owned companies. The Supervisory Board welcomed this opportunity.

Contact with the Works Council

Fostering good relations with the Works Council, which represents employee interests, is an important task of the Supervisory Board, and one it considers vital given the rapid developments in the energy market in general and at TenneT in particular. As such, the Chairman of the Supervisory Board regularly met with members of the Works Council during the year to keep abreast of employee issues. A joint meeting in November with the Supervisory Board, the Works Council and the Executive Board was welcomed by the Supervisory Board since it gave an opportunity for an active dialogue with the Works Council.

Financial statements

Based on the preparatory work and advice of the Audit Committee, the Supervisory Board has examined the 2015 integrated annual report, the 2015 financial statements and the independent auditor's report and assurance report issued by TenneT's external auditor, EY. It endorses these documents and recommends the General Meeting of Shareholders to adopt the financial statements.

The Supervisory Board recommends that the General Meeting of Shareholders discharges the Executive Board from liability in respect of its management of the company and releases the Supervisory Board from liability in respect of its supervision.

Word of appreciation

Over the course of 2015, TenneT successfully dealt with significant challenges while simultaneously working on multiple essential investment projects. The installation of no more than five new DC offshore connection systems and the all-time high level of investments in maintenance and expansion projects were major achievements in the year, demonstrating TenneT's commitment to investing in a reliable and secure electricity grid. Next to transmission and system services, it is TenneT's task to facilitate a smoothly functioning electricity market and to support the large-scale transition to renewables. TenneT plays a leading role in shaping an integrated European electricity market. Through all of this, TenneT remained focused and dedicated to its central purpose of safeguarding the safety and security of supply. In recognition of TenneT's achievements, the Supervisory Board would like to thank the members of the Executive Board and all TenneT employees. It is our employees' hard work and dedication, contribution and continuous commitment that made this possible.

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

Arnhem, 3 March 2016

A.W. (Aad) Veenman
Chair Supervisory Board

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

Supervisory Board

A.W. (Aad) Veenman

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

1947, Dutch
Initial appointment: 9 March 2005
Expiry third term: 9 March 2017
Principal position:
Former President N.V. Nederlandse Spoorwegen
Other positions:

- Member Supervisory Board and Chair of the Audit and Risk Committee Achmea B.V.
- Member Supervisory Board Prysmian Holding Netherlands N.V.
- Member Supervisory Board Royal Huisman Shipyard B.V.
- Chair Economic Cluster Logistics

P.M. (Pieter) Verboom

Vice-Chair Supervisory Board/
Chair Audit Committee

1950, Dutch
Initial appointment: 18 September 2012
Expiry first term: 18 September 2016
Principal position:
Former CFO RFS Holland Holding
Former Executive vice president and CFO Schiphol Group
Other positions:

- Member of the Advisory Board of NIBC
- Chair Curatorium Master Register Controllers and Advisor Programme 'The new CFO' (Erasmus University Rotterdam)
- Expert lay member of the Dutch Enterprise Court

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

S. (Stephanie) Hottenhuis
Member Supervisory Board

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

L.J. (Laetitia) Griffith
Member Supervisory Board

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

1956, German
Initial appointment: 1 January 2014
Expiry first term: 1 January 2018
Principal position:
Chief Executive Board Tata Steel Europe and member of the Board of Tata Steel Europe
Other positions:
- Member Management Board Deutsch-Niederländische Handelskammer
- Member Management Board Steel Institute VDEh
- Chair Management Board Forschungsvereinigung Stahlanwendung e. V.
- Member Amsterdam Economic Board

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

1949, Dutch
Initial appointment: 24 November 2010
Expiry second term: 24 November 2018
Principal position:
Former CEO Wintershall AG
Other positions:
- Member Supervisory Board Royal VOPAK N.V.
- Member Supervisory Board Amsterdam Capital Trading Group B.V.
- Member Supervisory Board EBN B.V. (until 16 April 2015)
- Member Supervisory Board Vroon B.V.

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

1965, Dutch
Initial appointment: 1 September 2013
Expiry first term: 1 September 2017
Principal position:
Member Executive Board Arcadis N.V.
Other positions:
- None

L.J. (Laetitia) Griffith
Member Supervisory Board

1965, Dutch
Initial appointment: 1 July 2015
Expiry first term: 1 July 2019
Principal position:
State Councillor in the Advisory Division of the Dutch Council of State
Other positions:
- Member Supervisory Board KPMG
- Member Supervisory Board Holding Nationale Goede Doelen Loterijen
- Member Supervisory Board HCSS/TNO
- Chair Nederlandse Veiligheidsbranche
- Member board VNO-NCW
- Member board Fondsenbeheer Nederland
- Member board Staetshuys Fonds
- Member Curatorium Mr. Gonsalves nationale innovatieprijs voor de rechtshandhaving
- Chair Stichting Vrienden van de Nederlandse Bachvereniging
- Chamberlain Nederlandse Haringpartij
- Member Supervisory Board Nuon N.V. (until 1 July 2015)

Remuneration report

The Remuneration Report sets out the current remuneration policy for the statutory directors of TenneT Holding B.V., as approved by the shareholder. The Remuneration Report specifies any adjustments in salary for the statutory directors in 2015, their success at meeting set targets and the resulting awards of variable remuneration. The report also specifies the remuneration received by the members of the Supervisory Board.

Remuneration policy of TenneT Holding B.V.

The remuneration policy is determined by the shareholder and effective as of 2011. The most important elements of the remuneration policy are:

Employment market reference group

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

These organisations include:

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

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

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

Remuneration norm

The benchmarking method as applied by TenneT results in a 'norm' level of remuneration for TenneT directors that exceeds the maximum desired by the shareholder of EUR 370,000 (as at 1 January 2015).

On the appointment of a new statutory director, the Supervisory Board shall, at the request of the shareholder, limit the sum of fixed and variable remuneration to a maximum of EUR 370,000 (as at 1 January 2015). To achieve a balanced remuneration within both the Executive Board and the next level of senior management, the maximum fixed and variable remuneration of the Vice-chair shall be between the remuneration of the CEO and the remuneration of the CFO and COO.

If, in the opinion of the Supervisory Board, the maximum remuneration as required by shareholder leads to unacceptable risks to the organisation because the available candidates do not have the right profile or necessary experience, the Supervisory Board shall consult the shareholder.

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

Variable remuneration

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

Performance targets fall into four categories: Security of Supply and Safety, Strategy, Operations and Finance. The comparative weighting of these performance categories varies from one year to the next, and differs according to the individual director's portfolio.

Each category includes certain public or societal objectives, the attainment of which will account for no less than 20% of the total performance-related salary.

The variable salary includes two separate components: the annual performance-based variable remuneration (limited to 25% of fixed annual salary) and the variable remuneration based on long-term performance of no more than 10% of the fixed annual salary. The latter component is payable upon meeting performance targets agreed for a period of three years. To preclude major fluctuations in the total annual remuneration, the long-term variable component will be paid annually in the form of an advance payment, based on progress to date. The final calculation of the long-term variable component will be performed at the end of the relevant three-year period, after which part of the variable remuneration which was paid in advance can be reclaimed. If, within a reasonable period after determining the variable remuneration, it is established that the award needs to be adjusted as a result of factors unknown when the award was made, the Supervisory Board shall decide whether and the extent to which the award of the variable remuneration needs to be revised.

Service agreement and compensation for early termination

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

Other allowances and secondary benefits

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

Secondary benefits also include a nominal contribution towards health insurance premiums and the choice of other flexible individualised benefits as well as a percentage of the fixed salary in the form of an employer's contribution to a life-course savings scheme. The percentage is established by the 'NWb' Collective Labour Agreement. The above benefits are applicable to all TenneT employees in the Netherlands. The company does not extend loans, loan guarantees or advances against future earnings to any director.

Pensions

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

As of January 1, 2015, new legislation in the Netherlands has introduced a lower pension build up percentage for all employees as well as a cap for gross premium for pensionable income above EUR 100,000. Depending on the pensionable income and the remaining years to retirement, the changes in the pension legislation will lead to lower projected pension outcomes. The lower pension build up leads to lower pension premium payments by employers, which are partly offset by a collective salary increase as defined in the 'NWb' Collective Labour Agreement for grid companies.

To partly compensate the impact of the cap for gross premium for pensionable income, TenneT directors receive the same compensation as TenneT employees with an income above EUR 100,000. The compensation is based on the fiscally allowed pension premium percentage for income above EUR 100,000 and specified per age category.

Employment contracts of directors appointed before 2011

The current remuneration policy as described above does not affect the agreed employment terms and conditions of directors appointed before 2011.

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

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

Others

In 2014 the shareholder allowed the Supervisory Board to exceed the remuneration norm as defined in the TenneT remuneration policy to enable the appointment of a qualified candidate as Vice-chair of the Executive Board.

The shareholder agreed upon this exception for Mr Keussen after having concluded that the resulting remuneration is well below the median of the German remuneration market as well as the remuneration in comparable TSOs and substantially below the remuneration of the former Vice-chair.

Remuneration statutory directors (excluding pension cost and other benefits) (in EUR thousand)	Fixed Remuneration		Variable Remuneration (annual)		Variable Remuneration (long term)	
	2015	2014	**2015**	2014	**2015**	2014
J.M. Kroon Chief Executive Officer	337	331	73	80	n/a	n/a
U.T.V. Keussen Vice-chair Executive Board as of 15 October 2014	304	63	61	14	30	6
M.J. Fuchs Vice-chair Executive Board till 1 July 2014	n/a	136	n/a	118	n/a	n/a
B.G.M. Voorhorst Chief Operating Officer	257	252	51	54	n/a	n/a
O. Jager Chief Financial Officer	234	230	47	51	23	23

Remuneration of the statutory directors

Fixed and variable remuneration

Fixed remuneration

With effect from 1 January 2015 and in accordance with the indexation for employees as determined by the 'NWb' Collective Labour Agreement for grid companies as, the salaries of all statutory directors have been indexed by 1.2% and for the Dutch statutory directors by an additional 0.8% as an offset for a lower pension accrual due to new Dutch pension legislation.

Variable remuneration

Based on achievement of present targets, the Supervisory Board decided on the statutory directors variable payment realisation percentages over 2015. The realised percentages are included in the table below. The Supervisory Board has concluded that there are no current insights that might lead to the revision of the variable remuneration paid out in former years.

	J.M. Kroon		U.T.V. Keussen		B.G.M. Voorhorst		O. Jager	
	Realised	Maximum	Realised	Maximum	Realised	Maximum	Realised	Maximum
Security of Supply and Safety	**30%**	**45%**	**30%**	**45%**	**30%**	**45%**	**30%**	**45%**
Security of Supply	5%	20%	5%	20%	5%	20%	5%	20%
Safety	25%	25%	25%	25%	25%	25%	25%	25%
Strategy	**10%**	**10%**	**10%**	**10%**	**10%**	**10%**	**15%**	**15%**
Operations	**25%**	**30%**	**25%**	**30%**	**25%**	**30%**	**20%**	**25%**
Individual targets depending on indivual Board member's portfolio	25%	30%	25%	30%	25%	30%	20%	25%
Financial	**15%**	**15%**	**15%**	**15%**	**15%**	**15%**	**15%**	**15%**
EBIT	15%	15%	15%	15%	15%	15%	15%	15%
Total variable remuneration realised in 2015		**80%**		**80%**		**80%**		**80%**

Pension cost

(in EUR thousand)	2015 Pension contribution	2015 Pension compensa-tion	2015 Total pension costs	2014
J.M. Kroon Chief Executive Officer	69	84	153	153
U.T.V. Keussen Vice-chair Executive Board as of 15 October 2014	131	n/a	131	20
M.J. Fuchs Vice-chair Executive Board till 1 July 2014	n/a	n/a	n/a	85
B.G.M. Voorhorst Chief Operating Officer	20	27	47	46
O. Jager Chief Financial Officer	19	16	35	41

The pensions of all Dutch statutory directors are administered by the ABP Pension Fund. The pension accrual is based on a midpoint salary system. Besides the ABP pension, additional pension is accrued for the Chief Executive Officer to facilitate retirement at 61 years of age, under a non-contributory pension plan based on total income, agreed when he joined the company. Pension accruals considering the German income of the Dutch statutory directors based on the German activities are organized in a standard defined contribution contract with Swiss Life, in which the actual ABP premium defines the yearly contribution. The pension entitlements of the German former Vice-chair are accrued through a reserve on the balance sheet. The pension entitlements of the current German Vice-chair are based on the so-called Beitragsplan, a company agreement applicable for all employees of TenneT in Germany.

Based on an agreement with the Supervisory Board from 2010, the Chief Executive Officer acquired leave days in 2015 with a value of EUR 25,200 (2014: EUR 24,624).

Other allowances and secondary benefits

Secondary benefits and private use of company cars

(in EUR thousand)	Secondary benefits 2015	Secondary benefits 2014	Estimated value private use company car [1] 2015	Estimated value private use company car [1] 2014
J.M. Kroon Chief Executive Officer	8	8	4	4
U.T.V. Keussen Vice-chair Executive Board as of 15 October 2014	-	-	5	1
M.J. Fuchs Vice-chair Executive Board till 1 July 2014	n/a	-	n/a	4
B.G.M. Voorhorst Chief Operating Officer	7	6	7	8
O. Jager Chief Financial Officer	6	6	6	6

1 Based on estimated private mileage

All statutory directors make use of a company car, the estimated value of the private use of this car is shown in the above table. In addition, with respect to the private use of leased vehicles, the customary addition to taxable income is applicable for personal income tax purposes.

The company does not reimburse its directors for any personal income tax consequence resulting from the private use of leased cars.

In light of Mr Jager being temporarily stationed in Germany, a number of associated costs are reimbursed, including travel costs, housing costs and school fees. These reimbursements do not contain a remuneration component.

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

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

The total remuneration paid to the statutory directors reconciles to and is further disclosed in the notes to the consolidated financial statements.

Remuneration of the Supervisory Board

The remuneration policy for the Supervisory Board defines the remuneration for the different roles and committees of the Supervisory Board. Each Supervisory Board member is either a member or chair of one or two committees. To establish a link between the Supervisory Board and the Aufsichtsrat of TenneT TSO GmbH, one of the members of the Supervisory Board is also a member of the Aufsichtsrat.

During 2015, the responsibilities within the committees were as follows:

	Supervisory Board	Audit Committee	Remuneration and Appointments Committee	Strategic Investments Committee	Aufsichtsrat TenneT TSO GmbH
A.W. Veenman	Chair	Member	Member		
P.M. Verboom	Vice-chair	Chair			
R.G.M. Zwitserloot	Member			Chair	Member
S. Hottenhuis	Member		Chair		
J.L.M. Fischer	Member			Member	
L.J. Griffith as of 1 July 2015	Member		Member		

The remuneration for (the committees of) the Supervisory Board and the Aufsichtsrat remained unchanged since 2012 and is as follows in 2015:

(EUR)		
Chair	27,104	per annum
Vice-chair	21,798	per annum
Member	19,454	per annum
Audit Committee	6,480	per annum
Remuneration and Appointments Committee	5,125	per annum
Strategic Investments Committee	5,125	per annum
Aufsichtsrat TenneT TSO GmbH	5,500	per annum

The total remuneration received by members of the Supervisory Board in 2015 was as follows:

	Fixed remuneration		Committee fee		Total remuneration	
(in EUR thousand)	**2015**	2014	**2015**	2014	**2015**	2014
A.W. Veenman	27	27	12	12	39	39
P.M. Verboom	22	22	7	7	29	29
R.G.M. Zwitserloot	20	20	11	11	31	31
S. Hottenhuis	20	20	5	5	25	25
J.L.M. Fischer	20	20	5	5	25	25
L.J. Griffith as of 1 July 2015	10	n/a	3	n/a	13	n/a

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Consolidated statement of income

For the year ended 31 December (EUR million)

	Notes		2015		2014
Revenue	3.1		**2,844**		**2,569**
Grid expenses	3.2.1	1,671		905	
Personnel expenses	3.2.2	154		172	
Depreciation and amortisation of assets	4.1, 5.1	749		321	
Other operating expenses	3.2.3	83		235	
Other (gains)/losses	3.3	-		7	
Total operating expenses			**2,657**		**1,640**
Share in profit of joint ventures and associates	5.3		86		32
Operating profit			**273**		**961**
Finance income		11		10	
Finance expense	3.4	-141		-135	
Finance result			**-130**		**-125**
Profit before income tax			**143**		**836**
Income tax expense	3.5		27		232
Profit for the year			**116**		**604**
Profit attributable to:					
Equity holders of ordinary shares	6.2.1	-5		508	
Hybrid securities	6.2.1	33		33	
Owners of the company			**28**		**541**
Non-controlling interests	6.2.2		88		63
Profit for the year			**116**		**604**

Earnings per share attributable to the equity holders of ordinary shares

For the year ended 31 December (EUR per share)

	Notes	2015	2014
Basic and diluted earnings per share	3.6	15	2,580

Consolidated statement of comprehensive income

For the year ended 31 December (EUR million)

		Attributable to equity holders of the company							Non-con-trolling interest	Total equity
		Hedging reserve	Reserve for exchange rate difference	Retained earnings	Unappro-priated result	**Equity attribut-able to ordinary shares**	Hybrid securities	**Equity attribut-able to owners of the company**		
	Notes	6.2.1		6.2.1	6.2.1		6.2.1		6.2.2	
2014										
Other comprehensive income to be reclassified to profit or loss in subsequent years:										
Amortisation of hedges	6.2.1	-1	-	-	-	-1	-	-1	-	-1
Taxation	3.5	-	-	-	-	-	-	-	-	-
		-1	**-**	**-**	**-**	**-1**	**-**	**-1**	**-**	**-1**
Items not to be reclassified to profit or loss in subsequent years:										
Re-measurement of defined benefit pensions	7.1.1	-	-	-54	-	-54	-	-54	-	-54
Taxation	3.5	-	-	16	-	16	-	16	-	16
		-	**-**	**-38**	**-**	**-38**	**-**	**-38**	**-**	**-38**
Total other comprehensive income 2014		**-1**	**-**	**-38**	**-**	**-39**	**-**	**-39**	**-**	**-39**
Profit for the year		-	-	-	508	508	33	541	63	604
Total comprehensive income 2014		**-1**	**-**	**-38**	**508**	**469**	**33**	**502**	**63**	**565**
2015										
Other comprehensive income to be reclassified to profit or loss in subsequent years:										
Amortisation of hedges	6.2.1	1	-	-	-	1	-	1	-	1
Reclassification of exchange rate differences	5.2	-	2	-	-	2	-	2	-	2
Taxation	3.5	-	-	-	-	-	-	-	-	-
		1	**2**	**-**	**-**	**3**	**-**	**3**	**-**	**3**
Items not to be reclassified to profit or loss in subsequent years:										
Re-measurement of defined benefit pensions	7.1.1	-	-	9	-	9	-	9	-	9
Taxation	3.5	-	-	-2	-	-2	-	-2	-	-2
		-	**-**	**7**	**-**	**7**	**-**	**7**	**-**	**7**
Total other comprehensive income 2015		**1**	**2**	**7**	**-**	**10**	**-**	**10**	**-**	**10**
Profit for the year		-	-	-	-5	-5	33	28	88	116
Total comprehensive income 2015		**1**	**2**	**7**	**-5**	**5**	**33**	**38**	**88**	**126**

Consolidated statement of financial position

For the year ended 31 December (EUR million)

Assets	Notes	**2015**	2014
Non-current assets			
Tangible fixed assets	4.1	12,105	10,333
Intangible assets	5.1	120	118
Investments in joint ventures	5.3.1	299	272
Investments in associates	5.3.2	35	13
Deferred tax assets	3.5	2	8
Other financial assets	5.4	86	116
Total non-current assets		**12,647**	**10,860**
Current assets			
Inventories		15	13
Accounts- and other receivables	5.5	1,668	1,934
Financial assets		2	15
Income tax receivable	3.5	41	5
Cash and cash equivalents	6.4	52	122
		1,778	**2,089**
Assets of disposal group classified as held for sale	5.2	-	519
Total current assets		**1,778**	**2,608**
Total assets		**14,425**	**13,468**

Consolidated statement of financial position

For the year ended 31 December (EUR million)

Equity and liabilities	Notes	2015	2014
Equity			
Equity attributable to ordinary shares	6.2.1	2,712	2,816
Hybrid securities	6.2.1	520	520
Equity attributable to owners of the company		**3,232**	**3,336**
Non-controlling interests	6.2.2	956	852
Total equity		**4,188**	**4,188**
Non-current liabilities			
Borrowings	6.3	4,249	2,627
Deferred income	4.2	269	216
Deferred tax liability	3.5	354	497
Provisions	5.7	581	561
Net employee defined benefit liabilities	7.1.1	130	125
Other liabilities		2	1
Total non-current liabilities		**5,585**	**4,027**
Current liabilities			
Accounts- and other payables	5.6	3,932	3,601
Borrowings	6.3	395	698
Other financial liabilities		42	38
Deferred income	4.2	5	5
Income tax payable	3.5	81	181
Provisions	5.7	180	240
Bank overdrafts	6.4	17	-
		4,652	**4,763**
Liabilities of disposal group classified as held for sale	5.2	-	490
Total current liabilities		**4,652**	**5,253**
Total equity and liabilities		**14,425**	**13,468**

Consolidated statement of changes in equity

For the year ended 31 December (EUR million)

		Attributable to equity holders of the company									Non-controlling interest	Total equity
		Paid-up and called-up capital	Share premium reserve	Hedging reserve	Reserve for exchange rate difference	Retained earnings	Unappropriated result	**Equity attributable to ordinary shares**	Hybrid securities	**Equity attributable to owners of the company**		
	Notes	6.2.1		6.2.1		6.2.1	6.2.1	**6.2.1**	6.2.1		6.2.2	
Balance at 1 January 2014		**100**	**600**	**5**	**-2**	**1,346**	**390**	**2,439**	**520**	**2,959**	**401**	**3,360**
Total comprehensive income		-	-	-1	-	-38	508	469	33	502	63	565
Dividends paid	6.2.1	-	-	-	-	-	-98	-98	-	-98	-37	-135
Distribution on hybrid securities	6.2.1	-	-	-	-	-	-	-	-33	-33	-	-33
Taxation on distribution on hybrid securities	6.2.1	-	-	-	-	-	8	8	-	8	-	8
Sale to non-controlling interest	6.2.1	-	-	-	-	13	-15	-2	-	-2	366	364
Capital contribution	6.2.2	-	-	-	-	-	-	-	-	-	59	59
Appropriation remaining prior year profit		-	-	-	-	300	-300	-	-	-	-	-
Balance at 31 December 2014		**100**	**600**	**4**	**-2**	**1,621**	**493**	**2,816**	**520**	**3,336**	**852**	**4,188**
Total comprehensive income		-	-	1	2	7	-5	5	33	38	88	126
Dividends paid	6.2.1	-	-	-	-	-	-117	-117	-	-117	-12	-129
Distribution on hybrid securities	6.2.1	-	-	-	-	-	-	-	-33	-33	-	-33
Taxation on distribution on hybrid securities	6.2.1	-	-	-	-	-	8	8	-	8	-	8
Sale of subsidiary	6.2.2	-	-	-	-	-	-	-	-	-	-4	-4
Capital contribution	6.2.1	-	-	-	-	-	-	-	-	-	32	32
Appropriation remaining prior year profit		-	-	-	-	384	-384	-	-	-	-	-
Balance at 31 December 2015		**100**	**600**	**5**	**-**	**2,012**	**-5**	**2,712**	**520**	**3,232**	**956**	**4,188**

Consolidated statement of cash flows

For the year ended 31 December (EUR million)

	Notes		2015		2014
Operational activities					
Operating profit			**273**		**961**
Non-cash adjustments to reconcile profit to net cash flows:					
Depreciation, amortisation and impairment of assets	4.1, 5.1	749		321	
Result on disposal of assets	3.3	16		7	
Gain on disposal of subsidiary	3.3	-16		-	
Share in profit of joint ventures and associates	5.3	-86		-32	
Dividends received from joint ventures and associates	5.3	90		48	
Increase in deferred income	4.2	53		-16	
Movements in provisions and other (financial) liabilities and assets		-153		-143	
			653		**185**
Working capital adjustments excluding EEG working capital:					
(Increase)/decrease in account- and other receivables	5.5	188		-169	
(Increase)/decrease in inventories		-2		-	
Increase/(decrease) in account- and other payables	5.6	421		-12	
Increase/(decrease) in current financial liabilities		4		1	
			611		**-180**
Income tax paid (net)			-275		-97
Net cash flows from operating activities excluding EEG working capital			**1,262**		**869**
EEG working capital adjustments:					
(Increase)/decrease in EEG receivables	5.5	-7		-104	
Increase/(decrease) in EEG payables	5.6	128		973	
			121		**869**
Net cash flows from operating activities			**1,383**		**1,738**

Continuation >

< Continued

	Notes		2015		2014
Investing activities					
Purchase of tangible and intangible fixed assets	4.1, 5.1	-2,508		-2,146	
Proceeds from sale of tangible and intangible fixed assets	4.1, 5.1	6		9	
Sale of subsidiary	5.2, 5.3.2	-289		-6	
Acquisition of a subsidiary, net of cash acquired	5.2	-28		-	
Capital contribution to joint ventures and associates	5.3	-32		-8	
Contributions to financial assets		-		-12	
Proceeds from repayment of financial assets		12		51	
Interest received		1		3	
Net cash flows used in investing activities			**-2,838**		**-2,109**
Financing activities					
Proceeds from borrowings	6.3	2,020		181	
Repayment of borrowings	6.3	-698		-67	
Debt issuance costs	6.3	-		-6	
Interest paid		-119		-120	
Transaction costs of sale of non-controlling interests	6.2.2	-		-3	
Dividends paid to equity holders of the company	6.2.1	-117		-98	
Distribution on hybrid securities	6.2.1	-33		-33	
Dividends paid to non-controlling interests	6.2.2	-12		-37	
Proceeds from sale to non-controlling interests	6.2.2	-		366	
Proceeds from capital contributions by non-controlling interests	6.2.2	32		59	
Net cash flows from financing activities			**1,073**		**242**
Net change in cash and cash equivalents			**-382**		**-129**
Cash and cash equivalents at 31 December	6.4	35		417	
Cash and cash equivalents at 1 January	6.4	417		546	
			-382		**-129**

Notes to the consolidated financial statements

TenneT is continuously developing the Group's financial reporting. As part of this, TenneT has restructured the notes to the consolidated financial statements in order to focus more on what drives the Group's performance. The notes to the consolidated financial statements have been grouped into seven sections relating to key topics and figures from a business perspective. The notes contain the related financial information, a description of the accounting policies used for the topics of the individual notes, and, where applicable, the underlying estimations and assumptions.

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1. Basis for reporting

This section introduces TenneT's accounting policies, new EU endorsed accounting standards, amendments and interpretations, and significant accounting estimates and assumptions that relate to the consolidated financial statements as a whole. A more detailed description of accounting policies and significant estimates related to specific reported amounts is presented in the respective notes. Accounting policies which are deemed non-material are not included in these financial statements. TenneT considers an item material if, in its view, it is likely to have an impact on the economic decisions of the users of these financial statements.

1.1 General

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

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

The consolidated financial statements of TenneT Holding B.V. for the year ended 31 December 2015 were prepared by the Executive Board and authorised for issue in accordance with a resolution of the Supervisory Board on 3 March 2016.

1.2 Basis for preparation

The consolidated financial statements have been prepared in accordance with the IFRS as adopted by the European Union, and Part 9, Book 2 of the Netherlands Civil Code. The Company financial statements for TenneT Holding B.V. have been prepared in accordance with the provisions of Part 9, Book 2, of the Netherlands Civil Code, whereas the Company profit-and-loss account has been presented in an abridged form pursuant to Article 402, Book 2 of the Netherlands Civil Code.

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

Significant new and amended standards adopted by the Group

None of the new standards, amendments and interpretations as adopted by the EU that are effective as of 1 January 2015 impact the Group's financial statements. Consequently these are not further described.

IFRS standards issued but not yet effective and adopted by the Group

A number of new standards, amendments to standards and interpretations were issued but not effective for the financial year beginning 1 January 2015. Changes to these standards, following from amendments, interpretations and the annual improvement cycles which do not have a material impact on the TenneT's financial statements are not described.

Other upcoming changes to standards relevant for TenneT, but not yet adopted, are:

- IFRS 9 'Financial instruments' addresses the classification, measurement and recognition of financial assets and financial liabilities. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments and requires financial assets to be classified into two measurement categories: those measured at fair value and those measured at amortised cost. IAS 39's treatment of financial liabilities is carried forward to IFRS 9 essentially unchanged. The only change for financial liabilities valued against fair value is that IFRS 9 requires changes in the fair value of an entity's own credit risk to be recognised in other comprehensive income rather than the statement of income, unless this creates an accounting mismatch.The adoption of this new standard will have a limited impact on the Group's disclosures to the financial statements, but will not affect TenneT's financial position or performance. The effective date of this new standard is 1 January 2018. The Group plans to adopt the new standard on the given effective date.
- IFRS 15 'Revenue from contracts with customers' introduces a new five-step model to be applied to revenue from contracts with customers and provides a more structured approach to measuring and recognising revenue. In accordance with this new standard revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The effective date of this new standard is 1 January 2018. Based on an initial assessment the impact of this new standard seems limited for TenneT. A more detailed assessment will be carried out in 2016. The Group plans to adopt the new standard on the given effective date.
- IFRS 16 'Leases' sets out the principles for recognition, measurements and disclosures regarding leases. The new standard requires lessees to recognise most leases on their balance sheets. Lessees will have a single accounting model for all leases, eliminating the distinction between operating and finance leases. Lessor accounting remains largely unchanged. The new standard will be effective from 1 January 2019 with earlier adoption permitted if IFRS 15 has also been applied (subject to EU endorsement). In 2016 TenneT will assess the impact of IFRS 16 and plans to adopt the new standard on the required effective date.

Reclassifications

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

1.3 Basis for consolidation

The consolidated financial statements comprise the financial statements of TenneT Holding B.V. and its subsidiaries as at 31 December 2015. A list of the legal entities included in the consolidation of TenneT Holding B.V. is included in note 7.5.

Subsidiaries are consolidated from the date of acquisition, that 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 on consolidation.

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 of a subsidiary, it derecognises the subsidiary's assets (including goodwill) and liabilities, with 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.

Acquisitions are accounted for using the acquisition method, where the purchase price is allocated to the identifiable assets acquired and liabilities assumed on a fair value basis and the remainder recognised as goodwill.

1.4 Significant accounting judgements, estimates and assumptions

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities and the reported amounts of revenue and expenses during the reporting period. Management assesses such estimates continuously on the basis of previous results and experience, consultations with experts, trends, prognoses and other methods which management deems appropriate in each individual case. Since TenneT is subject to risks and uncertainties this may lead to actual results differing from these estimates, both positively and negatively. Significant items relating to TenneT's use of estimates and assumptions are as follows:

Item	Note	Estimate/assumptions
Impairment of tangible fixed assets	4.1	Estimate of recoverable amount
Tangible fixed assets	4.1	Estimate of remaining useful life
Intangible fixed assets	5.1	Estimate of recoverable amount and remaining useful life
Impairment review of goodwill	5.1	Estimate of cash flow projections and pre-tax discount rate
Grid expense payable	5.6.3	Estimate of electricity usage and energy prices
Provision for environmental management and decommissioning	5.7.5	Estimate of removal costs, removal dates and price increases in the period leading up to removal
Tariffs related provision	5.7.5	Estimate of electricity usage and number of parties
Other provisions	5.7.5	Mainly relate to estimate of probability, realisation date and curtailed feed-in volumes and prices
Pensions	7.1	Financial, actuarial and demographic assumptions

1.5 Foreign currency

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.

Transactions in foreign currency are recognised at the exchange rates prevailing at the date of the transaction. Monetary items in currencies are translated into euros at the exchange rate in effect on the balance sheet date. Non-monetary items measured at acquisition cost are translated into euros at the exchange rate in effect on the transaction date. Non-monetary items that are measured at fair value expressed in foreign currency are translated at the exchange rate in effect on the balance sheet date. Changes in exchange rates are recorded on a current basis in the income statement during the reporting period and presented as financial items.

2. Segment information

This section sets out the financial performance for the year split by the way the business is managed. TenneT monitors and manages the performance of its business from various perspectives: regulatory, legal, functional and by operating segment. The segmental disclosures highlighting the core business of the Group's operations are based on underlying financial information. The basis of the underlying financial information is also explained in this section.

2.1 Segment analysis

TenneT presents the results of the business, based on the information the Executive Board uses internally for the purposes of evaluating the performance of its operations and determining resource allocation between functional areas and operating segments. The Executive Board is the chief operating decision-making body (as defined by IFRS 8 'Operating segments') and assesses the performance of the operations on 'underlying' financial information periodically.

Underlying financial information is based on the principle of recognising 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 (see note 2.2 for further reference). TenneT's Executive Board believes that the presentation of underlying financial information leads to a sound, consistent and transparent financial insight into past and future business developments.

TenneT generates the majority of its business from regulated activities. For management information purposes TenneT's Executive Board considers the performance of its regulated activities in the Netherlands and those in Germany separately. This segmentation based on applicable regulatory frameworks is the key determinant for financial management of the business and for decision-making on budgets, allocation of resources and financing. These regulated activities are performed by two segments: TSO Netherlands and TSO Germany.

In addition and in conformity with previous years, non regulated activities are considered separately. Financing activities (including finance income and expense) are managed on a Group basis and amounts related thereto are not allocated to the segments. Transfer prices between the Netherlands and Germany are on an arm's length basis in a manner similar to transactions with third parties. These intercompany transactions are eliminated at a consolidated level. The Group has no material concentration of customers in either of the operating segments.

Taken together, the Group's operating segments are (i) TSO Netherlands, (ii) TSO Germany and (iii) Non regulated companies.

	2015					2014				
(EUR million)	**Revenue**	**EBIT**	**Investments**	**Assets**	**Liabilities**	Revenue	EBIT	Investments	Assets	Liabilities
TSO Netherlands	676	205	473	4,329	2,873	653	124	323	3,856	2,458
TSO Germany	2,597	769	1,926	13,204	8,807	1,631	564	1,971	11,851	7,827
Non regulated companies	38	101	6	352	191	51	37	2	915	674
	3,311	**1,075**	**2,405**	**17,885**	**11,871**	**2,335**	**725**	**2,296**	**16,622**	**10,959**
Eliminations and adjustments	-21	-	-	-2,461	-250	-20	-	-	-2,977	-550
Consolidated underlying information	**3,290**	**1,075**	**2,405**	**15,424**	**11,621**	**2,315**	**725**	**2,296**	**13,645**	**10,409**

For an analysis of the underlying results see the 'Financial' chapter of the Executive Board report.

In managing day-to-day operations within the two regulated segments (i.e. TSO Netherlands and TSO Germany), two additional steering dimensions are used: functional and by project execution unit. The functional steering focuses on the specific roles and responsibilities in TenneT's asset chain and the support functions around it, safeguarding adequate challenge, segregation of duties and multidisciplinary approach of issues within the Executive Board and between the departments.

2.2 ⓘ Accounting policies applied for 'underlying' financial information

The key requirement for the recognition of regulatory deferral accounts in underlying financial information is that an existing regulatory framework must be in place that permits the future reimbursement or requires the future settlement of the regulated asset or liability respectively. Consequently, a regulated asset is recognised in underlying financial information in respect of permitted reimbursements of current year expenses in future years. And vice versa, a regulated liability is recognised in underlying financial information in respect of required settlements (i.e. repayments) of current year revenues through future tariffs. Regulatory revenues and expenses are matched with each other during a corresponding reporting period.

Furthermore, auction receipts resulting from auctioning available capacity on cross-border interconnections are recognised as a liability in underlying financial information, whereas under IFRS these auction receipts are recognised as revenue. In underlying financial information auction receipts are initially valued at fair value and subsequently measured at amortised cost using the effective interest method. Once approved by the regulator, investments made using auction receipts are classified as investment contributions (presented under 'Liabilities'). An annual amount equal to the depreciation charges, plus a portion of the operating expenses, is recognised in the statement of income. The different accounting treatment of the regulatory deferral accounts results in a different fair value of the assets. For more information about the regulatory framework see the 'Financial' section of this report.

2.3 Regulatory deferral accounts: reconciliation to IFRS figures

The financial information presented in the segment information and board report is based on underlying financial information, which differs from IFRS with respect to the recognition of regulated assets, regulated liabilities and auctions receipts, and the measurement of tangible fixed assets. Consequently, the aforementioned results in different deferred tax balances in underlying financial information compared to IFRS reported figures. No other differences between underlying financial information and IFRS are applicable.

Underlying financial information is reconciled to reported IFRS figures as follows:

2015 (EUR million)	EBIT	Assets	Liabilities	Recovery/ reversal period (years)
Consolidated underlying information	**1,075**	**15,424**	**11,621**	
To be settled in tariffs	-665	-633	-79	0 - 5
Auction receipts	156	-	-1,101	0 - 30
Investment contributions	-8	-	-280	0 - 33
Maintenance of the energy balance	32	-	-39	0 - 1
Difference in tangible fixed assets	-317	-366	-	0 - 33
Effect on deferred tax balances	-	-	115	0 - 33
Consolidated IFRS financial statements	**273**	**14,425**	**10,237**	

2014 (EUR million)	EBIT	Assets	Liabilities	Recovery/ reversal period (years)
Consolidated underlying information	**725**	**13,645**	**10,409**	
To be settled in tariffs	195	-129	-147	0 - 5
Auction receipts	69	-	-990	0 - 30
Investment contributions	-11	-	-291	0 - 34
Maintenance of the energy balance	-21	-	-33	0 - 1
Difference in tangible fixed assets	4	-48	-	0 - 11
Effect on deferred tax balances	-	-	332	0 - 34
Consolidated IFRS financial statements	**961**	**13,468**	**9,280**	

Given adjustments for reconciling consolidated underlying EBIT to consolidated IFRS EBIT have the same impact on revenue, the reconciliation for consolidated underlying revenue to consolidated IFRS revenue is not shown in the above tables.

To be settled in tariffs

Revenue surpluses and deficits resulting from differences between expected (ex ante) and realised (ex post) electricity transmission volumes are incorporated in the tariffs of subsequent years in both Germany and the Netherlands. In the underlying financial information, these surpluses and deficits are recorded in the statement of financial position as 'to be settled in tariffs'. Compared to 2014, the increase is mainly related to the increase in system services expenses (EUR 0.7 billion) resulting from higher feed-in and redispatching expenses in 2015. These expenses have to be settled in coming years (see note 3.2.1).

Auction receipts & investment contributions

Auction receipts result from auctioning the available transmission capacity on cross-border interconnections. The resulting receipts are not at TenneT's free disposal. In accordance with European law, auction receipts are used to investment in cross-border interconnections. In the Netherlands, the ACM and TenneT have agreed to fully utilise auction receipts to reduce future tariffs. The current outstanding balance of auction receipts will be refunded via the tariffs over the next ten years. In Germany, the use of auction receipts for investments is effectively achieved by reducing tariffs over a 30-year period.

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

Under IFRS, auction receipts are recognised as revenue when realised.

Maintenance of the energy balance
As the system manager of the high-voltage grid in the Netherlands, TenneT receives funds from performing certain statutory duties, such as the maintenance of the energy balance. The proceeds from these activities (i.e. imbalance settlements) may only be used once approved by the Office of Energy Regulation. Imbalance settlements collected in one year are used in a subsequent year offset permitted revenue for the given subsequent year, effectively reducing transmission tariffs. Consequently, these amounts in the underlying financial information are recorded as a liability in the statement of financial position.

Differences in tangible fixed assets
Differences in tangible fixed assets occur due to the difference in accounting treatment of the regulatory deferral accounts and the related cash flows in order to determine the economic useful life and fair value (i.e. recoverable amount) of the assets resulting from acquisitions and used for impairment analysis.
The difference is mainly related to (i) the decrease in value of the NorNed assets (EUR 232 million) due to regulatory changes as recognised under IFRS (see note 4.1) and (ii) the impairment reversal (EUR 90 million), which is only related to the underlying figures (see 'Financial' section).

3. Results for the year

This section includes the results and performance of the Group. This section also includes details regarding the Group's income tax for the year and its related deferred tax assets and liabilities at year end.

3.1 Revenue

(EUR million)	2015	2014
Connection and transmission services	1,815	1,657
Maintenance of energy balance	119	91
Operation of energy exchanges	207	216
Offshore balancing	613	454
Other	90	151
Total	**2,844**	**2,569**

3.1.1 Connection, transmission and system services

In material terms, all revenue from connection and transmission is regulated by the ACM in the Netherlands and by the BNetzA in Germany. Revenue from connection and transmission services includes revenue from services provided to regional grid operators and industrial clients (resolution of transmission restrictions and reactive power management).

3.1.2 Maintenance of the energy balance

The AC frequency in the power grid must be 50Hz at all times and TenneT is responsible for ensuring that this frequency remains stable. TenneT permanently monitors and restores the balance between the demand for and supply of electricity via the electricity grid. To ensure this balance, TenneT deploys reserve capacity to accommodate fluctuations in supply and demand. The proceeds from maintaining this energy balance (e.g. imbalance settlements) fluctuate considerably and are refunded through regulated tariffs in both the Netherlands and Germany.

3.1.3 Operation of energy exchanges and cross-border capacity

This amount includes auction revenues consisting of auctioning cross-border interconnection capacity. Also administration and service fees from APX were included (2015, EUR 5 million: 2014, EUR 16 million).

3.1.4 Offshore balancing

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

3.1.5 ⓘ Accounting policy with respect to revenue

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

Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. Revenue includes an assessment of unbilled connection and transmission services supplied to customers between the date of the last meter reading and the year-end. This assessment is based on expected consumption and weather patterns.

If the revenue received or receivable exceeds the maximum amount permitted by the regulator, an adjustment will be made to future tariffs 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 tariffs in respect of an under-recovery.

3.2 Operating expenses

3.2.1 Grid expenses

(EUR million)	2015	2014
System Services	1,132	441
Connection and transmission services	214	175
Maintenance of energy balance	88	71
Maintaining and operating transmission grids	245	216
Other	-8	2
Total	**1,671**	**905**

Grid expenses include (i) the purchase of regulating and reserve capacity, black-start facilities, emergency capacity, transmission restrictions and reactive power, (ii) grid losses, and (iii) the cost of maintaining systems used for the primary operating processes.

System services expenses comprise mainly of the expenses for measures taken to restore the imbalance of the electricity grid and grid losses. Compared to 2014, the increase of EUR 0.7 billion is mainly related to higher feed-in and redispatching expenses in 2015. The increase is mainly due to (i) using more reserve capacity to solve transmission restrictions and subsequently higher compensation to the reserve power plants for these redispatch measures are paid and (ii) an increase in the compensation payments to renewables plants (mainly OWFs) for reducing there feed-in power in order to secure the security of supply in the grid. Feed-in volumes are driven by weather conditions and moreover increasing since the grid connections are expanding (see paragraph 5.6.3 'Grid expenses payable').

3.2.2 Personnel expenses

(EUR million)	2015	2014
Salaries	202	189
Social security contributions	27	25
Pension charges defined benefit plans	10	8
Pension charges other plans	12	13
Other personnel expenses	19	17
Capitalised costs for tangible fixed assets	-116	-80
Total	**154**	**172**

Average workforce in FTEs (internal employees only)	2,825	2,635
Average workforce in FTES employed in the Netherlands	1,302	1,272

Key management remuneration

Members of the Executive Board and Supervisory Board are regarded as key management. Aggregate remuneration paid to members of the Supervisory Board and Executive Board is as follows:

Supervisory Board (EUR thousand)	Fixed	Committee fee	Total
2015	**119**	**43**	**162**
2014	109	40	149

Executive Board (EUR thousand)	Fixed	Variable	Pension cost	Total
2015	**1,646**	**392**	**464**	**2,502**
2014	1,513	459	420	2,392

The aggregate Executive Board remuneration consists of remuneration paid to statutory directors of EUR 1,851 thousand (2014: EUR 1,770 thousand) and remuneration paid to non-statutory directors of EUR 651 thousand (2014: EUR 622 thousand). Pension remuneration equals (i) the contributions payable to the defined contribution plan for service rendered in the period or (ii), for defined benefit plans, the current service cost and, when applicable, past service cost. For further details on the pension plans, see note 7.1.

3.2.3 Other operating expenses

(EUR million)	2015	2014
Accommodation and office expenses	68	69
Consultancy expenses	13	17
Hiring of temporary personnel	18	22
Travel and living expenses	16	16
Other operating expenses	-32	111
Total	**83**	**235**

Other operating expenses in 2015 decreased due to a partial release of the provision for compensation payable to OWF operators in respect of possible interruptions of or delays in offshore high-voltage connections, which was recognised in 2014. For further details see note 5.7.

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

(EUR thousand)	2015	2014
Audit of the financial statements	1,226	1,334
Other assurance services	380	564
Total assurance services	**1,606**	**1,898**
Tax consultancy	50	-
Other services	109	77
Total other services	**159**	**77**
Total auditor's fees	**1,765**	**1,975**

3.3 Other (gains)/losses

(EUR million)	2015	2014
Gain on disposal of subsidiary	-16	-
Loss on disposal of assets	16	7
Total	**-**	**7**

Other gains and losses mainly relate to the gain resulting from the sale of APX (see note 5.2) and a loss on a partial disposal of developed software.

3.4 Finance expense

(EUR million)	2015	2014
Interest on borrowings and credit facilities	115	121
Capitalised interest on assets under construction	-19	-15
Interest on provisions	15	12
Interest on defined benefit pensions	2	2
Other finance expenses	28	15
Finance expenses	**141**	**135**

3.5 Income tax

In terms of tax, TenneT aims to comply with all applicable tax legislation in a socially responsible manner, helping the business achieve its goals by providing viable and practical tax advice and maintaining the highest levels of transparency, quality and integrity. Management responsibility and oversight of our tax strategy lies with the CFO and the Corporate Tax Manager who monitor the company's tax activities and report to the Executive Board and Audit Committee.

TenneT's tax strategy is in line with its corporate strategy. TenneT believes that building a transparent relationship with tax authorities based on mutual trust is an integral part of this strategy. TenneT has built and implemented a tax control framework to be 'in control' of tax risks and to allow the Company to show all its stakeholders, including the tax authorities, that it fully complies with all laws and regulations.

Tax is payable in the Netherlands and Germany. In the Netherlands, TenneT and the Dutch tax authorities signed a so called 'horizontal monitoring agreement'. Based on transparency and mutual trust, this agreement ensures that tax positions are fully disclosed and agreed on in advance, as a result of which generally no tax audits are performed. All corporate income tax returns have been filed up to and including 2013. Tax paid in the Netherlands in 2015 amounted to EUR 75 million.

In Germany, the corporate and trade tax returns for all German entities have been filed up to and including fiscal year 2013. In late March 2014, the German tax authorities initiated a tax audit covering the fiscal years 2008 to 2012 and relating to all German entities; this audit is ongoing. In 2015, TenneT paid EUR 200 million for corporate income tax in Germany.

The key components of income tax expense are:

Consolidated income statement (EUR million)	2015	2014
Current income tax:		
Current income tax charge	175	191
Deferred tax:		
Relating to origination and reversal of temporary differences	-148	41
Income tax expense reported in the income statement	**27**	**232**

The income tax related to temporary differences is related to the change in useful life of the NorNed assets resulting in an accelerated depreciation (see note 4.1 'Tangible fixed assets'), which is not recognised for tax purposes.

Consolidated statement of comprehensive income (EUR million)	2015	2014
Effect of re-measurement of defined benefit pensions	-2	16
Income tax charged directly to other comprehensive income	**-2**	**16**

Income tax on profits has been provided at the rates prevailing in the respective countries. In the Netherlands, a statutory corporate income tax rate of 25.0% applies, while in Germany, on average, a statutory corporate income tax rate of 29.4% applies (including trade tax by region or 'Gewerbesteuer'). Reconciliation between tax expense and the accounting profit multiplied by the statutory income tax rate of 25% is as follows:

(EUR million)	2015	2014
Accounting profit before income tax	**143**	**836**
Statutory income tax rate of 25% (The Netherlands, 2014: 25%)	36	209
Effect of higher tax rate in Germany	4	24
Deferred and current tax differences	1	6
(Non)-deductible interest	5	-2
Non-deductible/taxable mainly participation exemption effect	-17	-5
Tax paid by third parties	-2	-
At the effective income tax rate of 19% (2014: 28%)	**27**	**232**

The main reason for the lower effective tax rate (9% lower) is the effect of the participation exemption on the APX sale and TenneT's share in profit of joint ventures and associates.

Deferred tax relates to the following:

	Statement of financial position		Statement of income	
(EUR million)	**2015**	2014	**2015**	2014
Auction receipts	-263	-234	28	19
Investment contributions	-75	-74	-	2
Tariffs to be settled	-31	-84	-54	54
Accelerated depreciation for tax purposes	-191	-240	-55	37
Provisions	157	127	-32	-61
Profit allocation to hybrid	-5	-5	-	-
Hedging reserve	-	3	4	1
Other	56	18	-39	-11
Net deferred tax assets/(liabilities)	**-352**	**-489**		
Deferred tax expense/(income)			**-148**	**41**

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

(EUR million)	**2015**	2014
Deferred tax assets	2	8
Deferred tax liabilities	-354	-497
Deferred tax, net	**-352**	**-489**

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

(EUR million)	**2015**	2014
At 1 January	**-489**	**-468**
Tax expense during the period recognised in statement of income	148	-41
Initial recognition of acquired companies	-9	-
Tax income during the period recognised in other comprehensive income	-2	16
Reclassification to current liabilities	-	1
Reclassification from/to assets and liabilities held for sale	-	3
At 31 December	**-352**	**-489**

The Group does not have any tax loss carry forwards.

ⓘ Accounting policy

The tax charge for the period is recognised in the income statement, the statement of comprehensive income or directly in equity, according to the accounting treatment of the related transaction. The tax charge comprises both current and deferred tax.

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

Deferred tax is recognised using the liability method on temporary differences between the tax bases of assets and liabilities and their respective carrying amounts for financial reporting purposes at the reporting date. Deferred tax 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 in the relevant jurisdictions.

Deferred tax is generally recognised in respect of all 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. Deferred tax is not recognised for the following temporary differences:

- the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit;
- relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future;
- arising on the initial recognition of goodwill. All taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible 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.

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

3.6 Earnings per share

The earnings per share have been calculated by dividing the profit for the year attributable to ordinary shareholder of the Company, after adjustment for the distribution on hybrid securities, by the weighted average number of ordinary shares outstanding during the year. The following table reflects the income and share data used for the basic and diluted earnings per share calculations:

(EUR million)	2015	2014
Profit for the year attributable to ordinary shareholder of the company	28	541
Allocation to hybrid securities	-33	-33
Tax effect on allocation to hybrid securities	8	8
Profit for the year attributable to equity holders of the company adjusted for the allocation to hybrid securities	**3**	**516**
Weighted average number of ordinary shares in issue (in thousands)	200	200

4. Grid investments, other tangible fixed assets and related commitments

This section focuses on the tangible fixed assets and related commitments which form the basis of TenneT's activities. The majority of the invested capital comprises tangible fixed assets and the value of the invested capital will increase in the coming years mainly due to further onshore and offshore grid investments in Germany and the Netherlands to meet capacity requirements.

4.1 Tangible fixed assets

(EUR million)	High-voltage substations	High-voltage connections	Other assets	Assets under construction	Total
Cost					
At 1 January 2014	**2,468**	**2,529**	**354**	**4,479**	**9,830**
Additions	384	249	102	1,561	2,296
Transfers	1,175	891	62	-2,128	-
Transfer to intangible assets	-	-	-	-24	-24
Transfer from assets held for sale (note 5.2)	5	-	-4	-	1
Disposals	-31	-7	-7	-6	-51
At 31 December 2014	**4,001**	**3,662**	**507**	**3,882**	**12,052**
Additions	560	335	50	1,556	2,501
Initial recognition of acquired companies (note 5.2)	32	5	1	1	39
Transfers	1,056	668	106	-1,830	-
Transfer to intangible assets	-	-	-	-23	-23
Disposals	-47	-11	-29	-16	-103
At 31 December 2015	**5,602**	**4,659**	**635**	**3,570**	**14,466**
Depreciation and impairment					
At 1 January 2014	**690**	**668**	**112**	**-**	**1,470**
Depreciation for the year	136	130	26	-	292
Transfer from assets held for sale (note 5.2)	2	-	-3	-	-1
Disposals	-29	-6	-7	-	-42
At 31 December 2014	**799**	**792**	**128**	**-**	**1,719**
Depreciation for the year	251	196	37	-	484
Decrease in value due to regulatory changes	78	154	-	-	232
Disposals	-42	-8	-24	-	-74
At 31 December 2015	**1,086**	**1,134**	**141**	**-**	**2,361**
Net book value:					
At 1 January 2014	1,778	1,861	242	4,479	8,360
At 31 December 2014	3,202	2,870	379	3,882	10,333
At 31 December 2015	4,516	3,525	494	3,570	12,105

High-voltage substations include transformers. High-voltage connections consist of overhead and underground connections. Land surrounding high-voltage pylons and cables is not owned by the Group. Other tangible fixed assets consist of office buildings, office ICT equipment and other company assets.

On 15 December 2015 TenneT and the ACM signed a new policy framework for interconnectors ('Bevoegdhedenovereenkomst'). This regulatory change directly impacted the economic useful life of the NorNed interconnector for TenneT. The construction of the NorNed cable was financed by auction receipts in the past; as a result TenneT neither receives a reimbursement for the depreciation nor for the cost of capital on the NorNed assets. The majority of the economic benefits for TenneT was related to revenues from auctioning of capacity on the NorNed cable. However, following the change in regulation, any future auction receipts must be returned to consumers in future tariffs. This change in regulation resulted in a reduction of the future economic benefits embodied in the NorNed assets to nil as from 1 January 2016 and as such a decrease of the remaining carrying value of the NorNed assets for TenneT from EUR 232 million to zero as per 31 December 2015.

Disposals mainly related to the disposal of developed software (EUR 17 million) in 2015.

The amount of borrowing costs capitalised during the year ended 31 December 2015 was EUR 19 million (2014: EUR 15 million). The effective interest rate used to determine the amount of borrowing costs eligible for capitalisation was 3.3% (2014: 3.8%).

Assets under construction

	2015		2014	
(EUR million)	**Investments**	**Assets under construction**	Investments	Assets under construction
TSO Netherlands	473	678	323	582
TSO Germany - Onshore	466	376	298	296
TSO Germany - Offshore	1,460	2,516	1,673	3,004
Non regulated activities	6	-	2	-
Total	**2,405**	**3,570**	**2,296**	**3,882**

The investments are excluding the acquired 150 kV grid of Stedin Zuid Holland and Stedin Utrecht in the Netherlands.

The project execution unit steering focuses on the company's large construction projects and maintenance activities, which are managed by separate departments that are responsible for (i) onshore projects in the Netherlands, (ii) onshore projects in Germany and (iii) offshore and interconnector projects in either the Netherlands or Germany. The distinction between project execution is predominantly to execute TenneT's large investment portfolio in separate groups of similar projects, all governed by company-wide policies and guidelines regarding project management, governance and risk management.

ⓘ Accounting policy tangible fixed assets

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

are recognised in profit or loss as incurred. The present value of the expected cost for the decommissioning of an asset after its use is included in the cost of the respective asset, if the recognition criteria for a provision are met. Depreciation is calculated on a straight line basis.

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

General and specific borrowing costs directly attributable to the acquisition, construction or production of the tangible fixed assets, are added to the cost, until such time as the assets are substantially ready for their intended use or sale. No borrowing costs are capitalised where the borrowing costs are directly compensated in the year of construction.

Key estimates and assumptions tangible fixed assets

To calculate the depreciation amount, the following useful lives of the various asset types are assumed:

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

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

4.2 Deferred income

(EUR million)	2015	2014
Investment contributions	251	191
Service contracts	4	5
Other	14	20
Total	**269**	**216**

Investment contributions relate to amounts received from certain third parties for the construction of a new substation, a grid connection or increased capacity for its connection. The current part of the investment contributions amounts to EUR 5 million (2014: EUR 5 million) and is presented separately in the statement of financial position.

Other deferred income mainly relates to a payment received from the former shareholder of TenneT Germany. This payment reflects compensation for certain expenses that will be incurred by the Group in the next four years and therefore is equally recognised as revenue during this period.

ⓘ Accounting policy

At initial recognition fees received from third parties are measured at fair value and recognised as deferred income ('investment contributions') and recognised as revenue over the related asset's useful life.

4.3 Commitments and contingencies related to investments

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

(EUR million)	2015	2014
Off-balance sheet rights		
Bank guarantees received	1,516	4,250
Comfort letters received	421	106
Total off-balance sheet rights	**1,937**	**4,356**
Off-balance commitments		
Capital commitments	2,463	3,272
Comfort letters issued	27	44
Operating lease commitments	138	221
Total off-balance sheet obligations	**2,628**	**3,537**

4.3.1 Bank guarantees received

Bank guarantees received include guarantees with respect to prepayments in relation to investment projects. As mentioned several German offshore projects were commissioned and therefore bank guarantees were returned. In 2014, EUR 1,166 million of bank guarantees were related to APX, which received bank guarantees from its members to cover trading margins.

4.3.2 Comfort letters received

The majority of comfort letters received are from construction companies primarily involved in the construction of German offshore projects. As several offshore projects were commissioned in 2015, comforts letters were returned.

4.3.3 Comfort letters issued

TenneT has issued comfort letters for the (long-term) financial obligations of TenneT Offshore companies to several external parties. The Group has also issued several comfort letters to its subcontractors as part of the construction of tangible fixed assets, of which the majority relate to offshore projects in Germany. Comfort letters issued for which capital commitments have also been entered into (EUR 1,952 million) are included as part of the 'capital commitments' or either fulfilled by actual purchases. In addition, comfort letters issued for matters for which provisions have been recognised in the statement of financial position (EUR 73 million) are also excluded from the table above to the extent of such provisions.

4.3.4 Capital commitments

Capital commitments relate to commitments entered into with regard to the purchase of tangible fixed assets. Resulting from the progress made in mainly German offshore projects the outstanding capital commitments decreased. Approximately EUR 1,337 million of capital commitments are payable within the next 12 months.

4.3.5 Operating lease commitments

The Group has entered into operating lease commitments for certain office buildings and vehicles. In 2015 the operating lease expenses amount to EUR 11 million. Future minimum lease payables under non-cancellable operating leases are as follows:

(EUR million)	2015	2014
Within the next 12 months	20	23
Between 2 and 5 years	54	68
Beyond 5 years	64	130
Total	**138**	**221**

For 2015 and 2014 the Company did not have any financial leases.

ⓘ Accounting policy

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

Leases in which a significant portion of the risks and rewards of ownership are transferred to the lessee are classified as financial leases.

5. Other invested capital including working capital and provisions

TenneT's other invested capital includes intangible assets to support operations, goodwill relating to the assets that has arisen on past corporate transactions and developments in working capital resulting from the Group's (regulatory) activities. TenneT is committed to protecting and enhancing the environment, but most of the Group's activities have an environmental impact. Therefore, a provision has been recognised that reflects the expected cost to remediate and decommission these assets. Furthermore, in the ordinary course of its business, TenneT is party to several disputes and claims from third parties for which a provision has been recorded. This section describes those provisions together with the Group's other assets, including working capital.

5.1 Intangible assets

(EUR million)	Goodwill	Software	Customer contracts	Other intangible assets	Intangible assets under construction	Total
Cost						
At 1 January 2014	**39**	**117**	**64**	**37**	**1**	**258**
Additions	-	4	-	-	2	6
Initial recognition of acquired companies	1	-	-	4	-	5
Transfers	-	23	-	1	-24	-
Transfer from assets held for sale	-13	-	-	-20	-	-33
Transfer from tangible fixed assets	-	-	-	-	24	24
At 31 December 2014	**27**	**144**	**64**	**22**	**3**	**260**
Additions	-	5	-	1	2	8
Initial recognition of acquired companies	4	-	-	-	-	4
Transfers	-	26	-	-	-26	-
Transfer from tangible fixed assets	-	-	-	-	23	23
At 31 December 2015	**31**	**175**	**64**	**23**	**2**	**295**
Amortisation and impairment						
At 1 January 2014	**2**	**87**	**23**	**16**	**-**	**128**
Amortisation for the year	-	21	5	1	-	27
Transfer from assets held for sale	-2	-	-	-11	-	-13
At 31 December 2014	**-**	**108**	**28**	**6**	**-**	**142**
Amortisation for the year	-	27	5	1	-	33
At 31 December 2015	**-**	**135**	**33**	**7**	**-**	**175**
Net book value:						
At 1 January 2014	37	30	41	21	1	130
At 31 December 2014	27	36	36	16	3	118
At 31 December 2015	31	40	31	16	2	120

The Company acquired Netz Veltheim GmbH in July 2015 and EUR 4 million of goodwill was recorded as a result of this transaction (see note 5.2).

As at 31 December 2015, goodwill was allocated to cash generating units (CGUs): TSO Netherlands (EUR 3 million), TSO Germany (EUR 24 million) and non regulated companies (EUR 4 million). As at 31 December 2014 the allocated goodwill amounts to CGUs were EUR 3 million, EUR 20 million and EUR 4 million respectively.

ⓘ Accounting policy

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

Goodwill is initially measured at cost and represents the excess of the consideration transferred over TenneT's interest in the value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the amount of the non-controlling interest in the acquiree. After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

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 end of an asset's or CGU's fair value less costs of disposal and its value in use. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

Key estimates and assumptions

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

As shown in the table, TenneT's intangible assets, with exception of goodwill, have a fixed useful life and are amortised over the asset's useful life. The useful life is re-assessed at least at the end of each reporting period. Intangible assets are amortised in a straight line, as this best reflects the use of the asset.

Goodwill has an indefinite useful life and is therefore not amortised, but is tested for impairment annually or more frequently if events or changes in circumstances indicate a triggering event, either individually or at the CGU level. The assessment of indefinite useful life is reviewed annually superfluous.

Impairment testing of goodwill

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the CGUs (for TenneT reportable segments) or groups of CGUs 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.

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

The impairment calculation is based on detailed budgets and forecast projections, which are prepared separately for each of the CGUs to which the individual assets are allocated. The budgets and forecast projections reflect current regulatory parameters taking into account expected future regulatory developments. Management believes that these cash flows can be determined reliably and that they give an appropriate reflection of the CGUs cash flow generating potential.

TSO Germany CGU

The recoverable amount of the TSO Germany CGU was determined based on a value in use calculation using cash flow projections from the Group's internal business plan. The post-tax discount rate applied to cash flow projections was 3.83% and cash flows beyond the three-year period which were estimated on the basis of regulatory allowed returns and invested capital. Management believes that these cash flows can be determined reliably and give an appropriate reflection of the CGUs cash flow generating potential. It was concluded that the recoverable amount was significantly in excess of the carrying value. As a result of this analysis, management concluded that no impairment loss was to be recognised.

TSO Netherlands CGU

Similar to the TSO Germany CGU, the recoverable amount of the TSO Netherlands CGU was determined based on a value in use calculation using cash flow projections from the Group's three year business plan and cash flows beyond the three-year period were estimated on the basis of regulatory allowed returns and invested capital. Management believes that these cash flows can be determined reliably and give an appropriate reflection of the CGUs cash flow generating potential. The main assumptions applied in calculating the recoverable amount of TSO Netherlands CGU are:

- *Discount rate* – The applied discount rate is equal to the regulatory allowed return on capital (3.2% nominal, post-tax). For auction receipts a higher discount rate has been applied due to its different risk profile (5.0% nominal, post-tax);
- *Capex efficiency score 90% until 2025* - The applied capex efficiency score equals the ACM's recent proposal for the current regulatory period;
- *Growth rate* – The applied growth rate has been derived from the capital expenditures included in the company's business plan and for the period thereafter management has assumed a long-term sustainable level of investments.

Based on these assumptions the recoverable amount of TSO Netherlands CGU was some EUR 150 million above the carrying value. A change in the post-tax discount rate of 0.5% would result in a change in the recoverable amount of some EUR 50 million. An indefinite change in the capex efficiency benchmark score of 1% would result in a change in the recoverable amount of some EUR 90 million. Overall, management concluded that the recoverable amount of TSO Netherlands CGU was in excess of its carrying value and therefore no impairment loss was to be recognised.

5.2 Business combinations

Disposal of assets held for sale

Effective 4 May 2015 TenneT exchanged all its shares (70.8%) in APX Holding B.V. to EPEX for new shares in EPEX. Subsequently, TenneT contributed these EPEX shares to Holding des Gestionnaires de Réseaux de Transport d'Électricité S.A.S. (hereafter referred to as 'HGRT') in exchange for newly issued ordinary shares in HGRT (see note 5.3.2).

On 31 December 2014 and up to 4 May 2015, APX's assets and liabilities were classified as held for sale and included in the 'non regulated companies' segment. Following the exchange of TenneT's shares in APX, all of APX's assets and liabilities were derecognised. Furthermore, the reserve for exchange rate differences relating to APX's foreign operation (EUR -2 million) was reclassified from equity to profit-or-loss.

In total, the sale of APX resulted in a EUR 12 million gain, a decrease in the non-controlling interests of EUR 4 million, an increase in investments in associates (EUR 24 million) and a decrease in the cash and cash equivalents of EUR 295 million (see note 6.4).

Acquisition Netz Veltheim GmbH

Through its subsidiary TenneT TSO GmbH, the Group acquired 100% of the shares of Netz Veltheim GmbH in Germany on 3 July 2015 for a cash consideration of EUR 33 million.

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

(EUR million)	
Assets	
Tangible fixed assets	39
Accounts- and other receivables	182
Cash and cash equivalents	5
Liabilities	
Provisions	-9
Deferred tax liability	-8
Accounts- and other payables	-180
Net Assets	**29**
Goodwill arising on acquisition	4
Purchase consideration transferred	**33**

The tangible fixed assets mainly comprise 220kV substations and connections. The accounts- and other receivables, and account- and other payables mainly relate to a receivable from and payable to TenneT TSO GmbH.

ⓘ Accounting policy

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.

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 end of the asset's carrying value and fair value less costs of disposal.

5.3 Investments in joint ventures and associates

5.3.1 Joint ventures

The Group has, directly or indirectly, 50% equity stakes in BritNed Development Ltd. ('BritNed'), Relined B.V., Reddyn B.V., DC Nordseekabel Beteiligungs GmbH, DC Nordseekabel Management GmbH, Tensz B.V., TeslaN B.V. and DC Nordseekabel GmbH & Co. KG ('NOKA'). These investments are classified as joint ventures, for which the Group has concluded that only the investment in BritNed (legal seat: Arnhem, the Netherlands) and NOKA (legal seat: Bayreuth, Germany) are considered material.

BritNed

BritNed is a joint venture between TenneT and National Grid, the British TSO. It owns and operates a 1,000 MW DC interconnector between the United Kingdom and the Netherlands. Operating costs and trading revenue are shared equally between TenneT and National Grid.

NOKA

In February 2015, partner companies Statnett, TenneT and KfW made a final investment decision to establish an interconnector between Norway and Germany under the project name 'NordLink'. Ownership of the interconnector is equally split, with TenneT and KfW owning the Southern part through NOKA, a jointly owned company and Statnett owning the Northern part through a wholly-owned Norwegian company. Operating costs and trading revenue are shared equally between NOKA and Statnett.

Other joint ventures are considered immaterial and are therefore disclosed on an aggregated level.

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

	2015				2014		
Statement of financial position (EUR million)	**BritNed**	**NOKA**	**Other**	**Total**	BritNed	Other	Total
Non-current assets	479	103	11	593	494	33	527
Cash and cash equivalents	47	24	2	73	43	7	50
All other current assets	18	1	2	21	19	3	22
Non-current liabilities	12	11	8	31	6	8	14
Current liabilities	33	21	6	60	32	9	41
Equity	**499**	**96**	**1**	**596**	**518**	**26**	**544**
Ownership TenneT	*50%*	*50%*	*50%*		*50%*	*50%*	
Carrying amount of the investment	**250**	**48**	**1**	**299**	**259**	**13**	**272**

	2015				2014		
Statement of income (EUR million)	**BritNed**	**NOKA**	**Other**	**Total**	BritNed	Other	Total
Revenue	204	7	6	217	116	5	121
Depreciation and amortisation	16	-	1	17	16	1	17
Other costs	15	1	3	19	17	3	20
Operating profit	**173**	**6**	**2**	**181**	**83**	**1**	**84**
Finance income and (expense)	1	-	-	1	1	-	1
Income tax (expense)	-32	-	-	-32	-21	-1	-22
Profit for the year	**142**	**6**	**2**	**150**	**63**	**-**	**63**
Ownership TenneT	*50%*	*50%*	*50%*		*50%*	*50%*	
Group's share in profit	**71**	**3**	**1**	**75**	**32**	**-**	**32**

BritNed has contingent liabilities of EUR 7 million (2014: EUR 5 million) and NOKA has contingent liabilities of EUR 0.7 billion (2014: EUR 4 million). The other joint ventures have contingent liabilities of EUR 2 million (2014: EUR 2 million), solely relating to Relined B.V.

The Group's joint ventures cannot distribute their profits until they obtain consent from all shareholders or partners. In 2015 TenneT received EUR 80 million dividends from BritNed (2014: EUR 48 million). TenneT contributed EUR 32 million to NOKA's capital in 2015.

5.3.2 Associates

As at 31 December 2015 TenneT's substantial investments in associates consist of a 34% interest in HGRT and a 25% interest in Open Tower Company B.V. (hereafter referred to as 'OTC'). In addition, the Group holds three immaterial investments in Energie Data Services Nederland B.V. (EDSN), European Market Coupling Company GmbH (EMCC) and TSCNET Services GmbH (TSC).

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

	2015			2014		
Statement of financial position (EUR million)	**HGRT**	**OTC**	**Total**	HGRT	OTC	Total
Non-current assets	99	117	216	51	124	175
Current assets	4	18	22	2	38	40
Other non-current liabilities	-	156	156	-	158	158
Current liabilities	1	5	6	-	5	5
Equity	**102**	**-26**	**76**	**53**	**-1**	**52**
Ownership TenneT	*34%*	*25%*		*25%*	*25%*	
Carrying amount of the investment	**35**	**-**	**35**	**13**	**-**	**13**

	2015			2014		
Statement of income (EUR million)	**HGRT**	**OTC**	**Total**	HGRT	OTC	Total
Revenue	-	23	23	-	22	22
Depreciation and amortisation	-	6	6	-	6	6
Other costs, gains and losses	-10	5	-5	-	11	11
Operating profit	**10**	**12**	**22**	**-**	**5**	**5**
Finance income and (expense)	-5	-6	-11	1	-7	-6
Income tax (expense)	1	-2	-1	-	1	1
Profit for the year	**6**	**4**	**10**	**1**	**-1**	**-**
Ownership TenneT at 31 December	*34%*	*25%*		*25%*	*25%*	
Group's share in profit	**2**	**9**	**11**	**-**	**-**	**-**

HGRT

The legal seat of holding company HGRT is in Paris, France. As a result of the sale of APX (see note 5.2) TenneT initially increased its interest in HGRT to 40% in 2015. In the course of 2015 TenneT sold 6% of its shareholding in HGRT for a cash consideration of EUR 6 million, giving rise to a gain of EUR 4 million. As at 31 December 2015, TenneT owns a 34% stake in HGRT.

HGRT holds a 49% stake in EPEX. EPEX is the exchange for the power spot markets for the NWE region and the United Kingdom. At 31 December 2015, HGRT had no contingent liabilities outstanding (2014: nil). In 2015, EUR 1 million in dividends was received (2014: nil).

OTC

OTC (legal seat: Vianen, the Netherlands) is a holding company and holds majority interests in three asset companies, namely Colonne B.V., Mobile Radio Networks Vehicle B.V. (MRNV) and OTC II B.V. In 2015 DutchFort B.V. has been merged into MRNV. These companies mainly own infrastructure assets specifically designed for terrestrial communications. OTC had EUR 2 million in contingent liabilities as at 31 December 2015 (2014: EUR 5 million). TenneT received EUR 7 million dividends from OTC (2014: nil). The dividend is in excess of the carrying amount. Since TenneT does not have to refund the dividends and is not liable for OTC's legal or constructive obligations, the dividend is recognised as profit. In 2014 the Group received EUR 5 million from a capital reduction in OTC.

5.3.3 ⓘ Accounting policy joint ventures and associates

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

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

Investments in joint ventures and associates are accounted for using the equity method. Under the equity method, the investment in the joint venture or associate is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the investment since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The statement of income reflects TenneT's share of the results of operations of the investment. Any change in other comprehensive income of those investors is presented as part of the Group's other comprehensive income. In addition, when there is a change recognised directly in the equity of the investment, TenneT's share of any change is recognised in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the investment are eliminated to the extent of the interest in the investment.

When an associate or joint venture makes dividend distributions to TenneT in excess of our carrying amount, a liability is recognised if TenneT is obliged to (i) refund the dividend, (ii) has incurred a legal or constructive obligation or (iii) made payments on behalf of the associate. In the absence of such obligations, TenneT recognises the excess in net profit for the period. When the associate or joint venture subsequently makes profits, TenneT only starts recognising profits when they exceed the excess cash distributions recognised in net profit plus any previously unrecognised losses.

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

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

5.4 Other non-current financial assets

(EUR million)	2015	2014
Receivables from other TSOs	63	96
Receivables from related parties	15	9
Fees for credit facilities available	6	7
Other	2	4
Total	**86**	**116**

The majority of the receivables from other TSOs relate to costs charged ('horizontal balancing') in relation to German offshore connections. The receivable from related parties mainly consists of loans granted to MRNV, a 100% participation of TenneT's associate OTC (see note 5.3.2).

5.5 Accounts- and other receivables

(EUR million)	2015	2014
Amounts to be invoiced to EEG trade debtors	917	855
EEG trade receivables	63	118
Trade receivables	101	130
Amounts to be invoiced	424	626
VAT receivables	64	61
Interest receivable	4	4
Other	95	140
Total	**1,668**	**1,934**

5.5.1 EEG trade receivables and amounts invoiced to EEG trade debtors

In accordance with the EEG in Germany, TSOs like TenneT TSO GmbH are required to purchase electricity from renewable energy sources at fixed feed-in tariffs. Subsequently such renewable energy is sold on power exchanges at spot prices.

The difference is covered by an EEG levy, determined annually, which is part of German consumer tariffs. EEG revenues and expenses are legally separate and bound to be equal, except for certain potential bonus amounts payable to TenneT for marketing the energy on the power exchange. The EEG levy also includes an additional liquidity buffer. TenneT acts as an agent with respect to these EEG services.

EEG trade debtors and receivables consist of the accrual of unbilled EEG levy mainly for the month December, the outstanding invoices for the EEG levy, and the accrual for horizontal balancing (i.e. charges to the other German TSOs) and energy stock revenues. EEG receivables are not at the Company's free disposal.

5.5.2 Trade receivables

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

			Past due but not impaired		
(EUR million)	Total	Neither past due nor impaired	0-30 days	31-60 days	>60 days
2015	**101**	**60**	**12**	**2**	**27**
2014	130	47	12	6	65

In respect of the regular trade receivables credit risk is limited as substantially all potential losses are expected to qualify for compensation in future tariffs. Changes in the bad debt provision are as follows:

(EUR million)	**2015**	2014
At 1 January	**28**	**21**
Charge for the year	14	22
Utilised	-2	-12
Unused amounts reversed	-1	-3
At 31 December	**39**	**28**

As at 31 December 2015, receivables with an initial value of EUR 35 million (2014: EUR 28 million) were fully provided for.

5.5.3 Amounts to be invoiced

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

5.6 Accounts- and other payables

(EUR million)	2015	2014
EEG accounts payable	2,026	1,898
Accounts payable	163	134
Payables in connection with tangible fixed assets purchases	443	655
Grid expenses payable	993	667
Interest payable	78	84
Social securities and other taxes payable	13	9
Payables to related parties	6	1
Other payables	210	153
Total	**3,932**	**3,601**

5.6.1 EEG accounts payable

See note 5.5.1.

5.6.2 Payables in connection with tangible fixed assets purchases

Payables in connection with tangible fixed assets purchases relates to unbilled services and deliveries for onshore and offshore investment projects.

5.6.3 Grid expenses payable

The grid expenses payable consists of the (i) accrued expenses for measures taken to restore the imbalance of the electricity grid, and (ii) compensation payments to OWFs.

Key estimates and assumptions

In terms of the accrued expenses for measures taken, TenneT procures balancing services and asks various generators to come on or off the grid to help balance supply and demand or to manage 'constraints' (i.e. bottlenecks) in the electricity grid. At year-end, TenneT records an accrual for all balancing costs. The accrual is based on actual volumes (if available) or forecast volumes derived from models. Several assumptions regarding such matters as weather conditions, requested volumes and capacity per plant are made in these models. Prices are based on the underlying contracts and/or historical data. The complexity of the electricity market and uncertainties in assessing energy production from the likes of wind and solar power makes estimating the grid expenses payable a complex task. The compensation payments to OWFs are based depend on the energy amount which could not be fed in the grid. The pass-through accrual is based on a comparison of the costs incurred and the revenue generated by the surcharge.

In July 2015, a court ruling decided that the compensation for redispatch should include compensation for fixed costs, a decision that is likely to be applied retrospectively. In late 2015, the BNetzA, TenneT and the three other German TSOs developed a new concept for the compensation of redispatch. Based on this new concept, the accrual has been estimated to compensate the power plants for these redispatch costs.

5.7 Provisions

	2015			2014		
(EUR million)	**Current**	**Non-current**	**Total**	Current	Non-current	Total
Environmental and decommissioning	7	453	460	7	356	363
Tariffs related	167	11	178	191	10	201
Other	6	117	123	42	195	237
	180	**581**	**761**	**240**	**561**	**801**

(EUR million)	Environmental management and decommis-sioning	Tariffs related	Other	**Total**
At 1 January 2014	**154**	**229**	**170**	**553**
Addition	214	49	65	328
Utilisation	-8	-74	-2	-84
Unused amounts reversed	-4	-4	-	-8
Imputed	7	1	4	12
At 31 December 2014	**363**	**201**	**237**	**801**
Addition	110	39	-8	141
Utilisation	-3	-48	-21	-72
Unused amounts reversed	-25	-14	-85	-124
Imputed	15	-	-	15
At 31 December 2015	**460**	**178**	**123**	**761**

5.7.1 Provision for environmental management and decommissioning

The provision for environmental management and decommissioning serves to cover future obligations to dispose of hazardous substances in relation to high-voltage connections and underground cables, and also to decommission assets. In 2015, this provision includes an additional EUR 111 million (2014: EUR 196 million) in estimated future decommissioning costs for projects built during 2015, which are mainly related to the offshore projects DolWin1, HelWin2 and SylWin1. These additional funds were not recognised through the statement of income. There was no significant decommissioning of substations in 2015. TenneT expects decommissioning of the first OWF connection to start in 2029.

5.7.2 Tariffs related

Tariff-related provisions mainly relate to provisions for system service fees in the Netherlands. TenneT charges electricity consumers a fee for system services performed. Following a change in the law, the court in the Netherlands concluded that only parties with a direct connection to a grid maintained by a TSO are required to pay system service fees for the period prior to 31 December 2014. Consequently, TenneT is required to refund certain amounts to parties without a direct grid connection. These refunds can be recouped through future tariffs.

5.7.3 Other provisions

The majority of the other provisions relate to legal claims and to risks associated with delays and interruptions of offshore connections in Germany. The connection of OWFs is an area that presents additional technical and organisational challenges. A number of factors, including a lack of the supplier resources required for the construction of offshore grid connection system, as well as weather conditions and the application of new

technologies, has delayed the timely realisation and/or interrupted the operational phase of offshore grid connection systems and as such the grid connection of certain OWFs are subject to delays and interruptions. As a result of technology improvements and changed completion dates of the OWFs themselves, the provision has been partly released in 2015.

Furthermore, one OWF developer that was granted an unconditional grid connection commitment by TenneT in the past is pursuing legal proceedings against the Company.

5.7.4 ⓘ Accounting policy provisions

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

Provisions are made for environmental management and decommissioning costs, based on future estimated expenditures, discounted to present values. The estimated future costs are reviewed annually and adjusted as appropriate. Changes in the future costs or in the discount rate applied for the environmental management provision are recognised in the statement of income.

Decommissioning costs are recognised as part of the cost of the particular asset. Changes arising from revised estimates or discount rates or changes in the expected timing of expenditures are added to or deducted from the cost of the asset. Estimated future costs for decommissioning obligations arising after the related asset is brought into use are recognised in the statement of income.

The unwinding of the discount is included in the income statement as a financing charge.

5.7.5 Key estimates and assumptions provisions

The estimated decommissioning provision involves assessing the expected remaining useful life of the respective asset. It also includes the net present value of the estimated expenditure (discounted at a real rate of 4%). The useful life of the OWF connections is estimated at 20 years, after which period they will be decommissioned. A discount rate of 4% is also applied for the environmental management provisions.

The exact amount to be repaid for system services fees is uncertain and depends on such factors as the electricity usage of the relevant party in the past and the nature and legal structure of each individual party.

The estimated amount of the risks associated with delays and interruptions concerning the Group's offshore activities in Germany is based on the number of OWF connections, the likelihood of a delay or interruption occurring and the estimated compensation to be paid to the OWFs.

TenneT believes that the recorded provisions reflect its best estimate of the probable outflow of resources. Uncertainty about the assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of these provisions in future periods.

6. Capital structure and financing

This section outlines the notes related to TenneT's capital structure and financing, including financial and regulatory risks (see note 6.7). As a consequence of its operations, investments and financing, TenneT is exposed to several financial and regulatory risks that are monitored and managed by Corporate Risk Management and the Treasury and Regulatory departments. The main key indicator regarding capital management is the FFO/Net debt ratio based on 'underlying' financial information.

6.1 Capital management

The primary objective of TenneT's capital management structure is to ensure that the Company has a solid financial position to anticipate changes in the regulatory environment and to enable the Company to execute its extensive investment programme which is essential for the success of the energy transition in the Netherlands and Germany. The majority of the funding for TenneT's investment programme comes from the debt capital markets i.e. from institutional investors, commercial banks and government sponsored financial institutions (e.g. the EIB). The Company may also seek additional equity capital (e.g. through capital contribution by the shareholder and/or third party participations), adjust dividends paid to its shareholder or revise its investment plans.

To maintain full access to financial markets at the most favourable conditions, TenneT's Executive Board has defined capital management objectives, policies and processes and aims to:

1. maintain a senior unsecured credit rating of at least A3/A-;
2. maintain a FFO/Net debt ratio based on 'underlying' financial information of at least 8%;
3. diversify the maturities of long-term funding instruments to limit refinancing risk;
4. maintain liquidity through cash and undrawn committed credit lines covering at least Company's cash requirement on a rolling 12-month forward-looking basis.

The Group's capital management objectives, policies or processes were unchanged during 2014 and 2015.

1. Maintain a senior unsecured credit rating of at least A3/A-

TenneT Holding B.V. had the following senior unsecured credit ratings from Standard & Poor's and Moody's Investor Service which meet the target formulated above:

Credit rating as of 31 December 2015 and 2014	Long-term rating	Short-term rating
Standard & Poor's	A– (stable outlook)	A-2
Moody's Investor Service	A3 (stable outlook)	P-2

The credit ratings remained unchanged compared to 2014 and were confirmed by Standard & Poor's and Moody's Investor Service on 14 December 2015 and 7 May 2015, respectively.

2. Maintain a FFO/Net debt ratio based on 'underlying' financial information of at least 8%

To maintain the solid financial position, TenneT's internal policy is to maintain a FFO/Net debt ratio based on 'underlying' financial information (see note 2) of at least 8%, which is consistent with the perspective of credit rating agencies Standard & Poor's and Moody's.

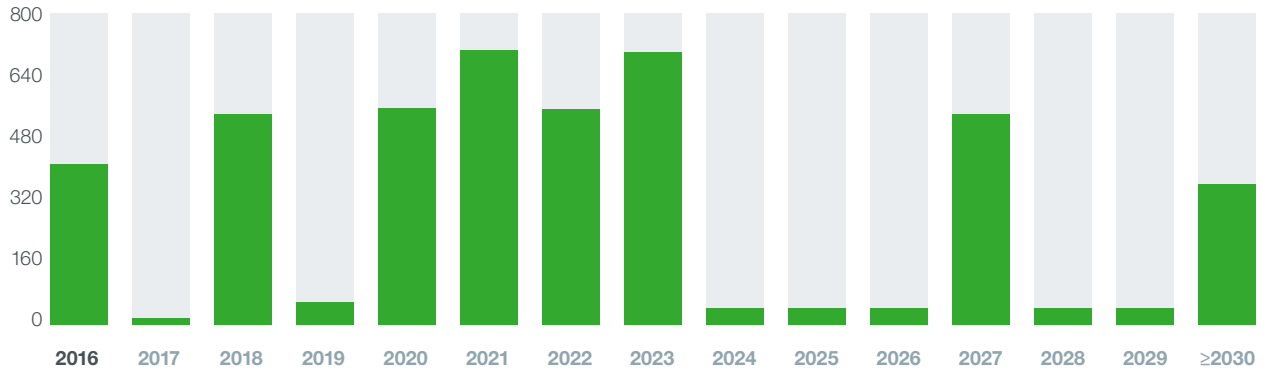
A reconciliation of the FFO and net debt adjusted is provided in the following table.

Based on underlying information (EUR million)	**2015**	2014
Profit for the year	681	418
+ amortisation, depreciation and impairments	433	325
+ result on disposal of assets	16	7
Total FFO	**1,130**	**750**
Net debt adjusted		
+ Long term borrowings	4,249	2,627
+ Short term borrowings	395	698
+ EEG related payables	2,026	1,898
+ Bank overdrafts	17	-
- Amounts to be invoiced to EEG trade debtors	-918	-855
- EEG receivables	-63	-118
- Cash and cash equivalents at free disposal	-3	-83
Total net debt adjusted	**5,703**	**4,167**
FFO/net debt	19.8%	18.0%

3. Diversify the maturities of long-term funding instruments to limit refinancing risk

To minimise any refinancing risks, TenneT aims to have a diversified maturity profile of its senior debt. On 31 December 2015, the Company's senior debt had the following annual redemption profile:

Annual redemption of interest-bearing debt (EUR million)



4. Maintain liquidity through cash and undrawn committed credit lines covering at least Company's cash requirement on a rolling 12-month forward-looking basis

The Group's objective is to be able to meet its short-term obligations at all times. The Group monitors the liquidity of the Group on a rolling 12-month forward-looking basis. This means that the sum of (i) cash and cash equivalents, (ii) undrawn committed credit facilities and (iii) 12-month net cash flow from operating activities

should be enough to meet the expected aggregate of scheduled debt repayments, investments in fixed assets and dividend payments over the subsequent 12 months. To support the 12-month liquidity requirement, the Company has a EUR 2.2 billion revolving credit facility (RCF) and EUR 150 million in committed undrawn EIB facilities available. The 12-month liquidity requirement was met on 31 December 2015.

6.2 Equity

6.2.1 Equity attributable to owners of the company

Paid-up and called-up capital

The company's authorised share capital amounts to EUR 500 million (2014: EUR 500 million), divided into one million shares of EUR 500 each. Of these shares, two hundred thousand shares have been issued and paid-up.

Hedging reserve

The hedging reserve relates to the cumulative result of the sold forward-starting interest rate swaps (hereafter referred to as 'FSIRS'), classified as cash flow hedges. The interest rate swaps were sold at the moment the Euro Medium Term Note Programme ('EMTN') was contracted in 2010 and 2011. The end term of the original FSIRS is 2020 and 2021. As at 31 December 2015, the 2020 FSIRS amounts to EUR -5 million and for the 2021 FSIRS amounts to EUR 10 million.

Hybrid securities

The hybrid securities are deeply subordinated securities and are, apart from being common equity, the most junior instruments in the capital structure of the company. The hybrid securities are undated and cannot default on non-payment of coupons (unless such payment was mandatory following a resolution or payment of a dividend to common shareholders i.e. 'dividend pusher'). This means that TenneT can avoid payment to hybrid securities owners.

The holders of the hybrid securities have a limited ability to influence the outcome of a bankruptcy proceeding or a restructuring outside bankruptcy. Consequently, the hybrid security holders cannot oblige TenneT to pay interest or redeem the loan in part or in full. Payment of interest and redemption of the loan is at the sole discretion of TenneT. As a result, the hybrid securities are considered as part of the equity attributable to the company's equity holders.

The hybrid securities comprise of EUR 500 million securities issued in 2010 and bear an optional, cumulative interest rate of 6.655%, payable annually on 1 June of each year. Furthermore, additional hybrid securities were issued in 2013 which bear an optional interest rate of 3%. As at 31 December 2015 the unpaid cumulative dividend amounts to EUR 19 million (2014: EUR 19 million), relating to the period 1 June until 31 December and payable on 1 of June 2016.

Dividend distribution

In 2015, TenneT distributed a common dividend of EUR 116.5 million (EUR 583 per share) to its ordinary shareholder. TenneT also paid a distribution to the holders of the hybrid securities of EUR 33 million. The income tax benefit relating to the latter distribution was EUR 8 million.

The appropriation of the 2015 profit is at the free disposal of the General Meeting of Shareholders.

6.2.2 Non-controlling interests

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

(EUR million)	Country	2015	2014
TenneT Offshore 2. Beteiligungsgesellschaft mbH ("TO2")	Germany	69%	69%
TenneT Offshore 8. Beteiligungsgesellschaft mbH ("TO8")	Germany	63%	63%
TenneT Offshore DolWin3 Beteiligungs GmbH & Co. KG ("TOD3")	Germany	62%	78%
TenneT Offshore DolWin3 Verwaltungs GmbH ("TODV")	Germany	62%	78%
APX Holding B.V.	Netherlands	-	29%

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

(EUR million)	TO2	TO8	TOD3	TODV	APX	Total
At 1 January 2014	**247**	**146**	**-**	**-**	**8**	**401**
Profit attributable to non-controlling interests	17	31	13	-	2	63
Dividends paid	-35	-	-	-	-2	-37
Sale to non-controlling interest	-	-	366	-	-	366
Capital contribution	-	53	6	-	-	59
At 31 December 2014	**229**	**230**	**385**	**-**	**8**	**852**
Profit attributable to non-controlling interests	13	44	30	-	1	88
Dividends paid	-	-7	-	-	-5	-12
Sale to non-controlling interest	-	-	-	-	-4	-4
Capital contribution	10	22	-	-	-	32
At 31 December 2015	**252**	**289**	**415**	**-**	**-**	**956**

The non-controlling interest in TODV and TOD3 are held by Copenhagen Infrastructure Partners (CIP), which holds a 67% economic interest in the adjusted (for certain regulatory effects) profits of these companies. The profit from certain regulatory effects are solely allocated to TenneT's equity attributable to the equity holders of the company, consequently the proportion held proportion by CIP in TODV and TOD3 decreased in 2015.

As a result of the sale of APX the non-controlling interest in APX is no longer recognised. Further information on this sale is included in note 5.2.

Financial information of these subsidiaries is summarised below on a consolidated basis before intercompany eliminations and in conformity with the Group's accounting principles.

	2015			
Statement of financial position (EUR million)	**TO2**	**TO8**	**TOD3**	**TODV**
Non-current assets	1,167	1,549	978	-
Current assets	75	173	25	-
Non-current liabilities	760	1,150	224	-
Current liabilities	116	111	118	-
Equity	**366**	**461**	**661**	**-**
Attributable to owners of the parent	114	172	246	-
Attributable to non-controlling interests	252	289	415	-

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

	2015				
Statement of income (EUR million)	**TO2**	**TO8**	**TOD3**	**TODV**	**APX**
Revenue	166	184	89	-	9
Depreciation and amortisation	74	36	-	-	1
Other costs	36	10	1	-	5
Operating profit	**56**	**138**	**88**	**-**	**3**
Finance income and (expense)	-29	-39	-5	-	-
Income tax (expense)	-10	-29	-9	-	-1
Profit for the year	**17**	**70**	**74**	**-**	**2**
Other comprehensive income	-	-	-	-	-
Total comprehensive income	**17**	**70**	**74**	**-**	**2**
Attributable to non-controlling interests	13	44	30	-	1
Dividends paid to non-controlling interests	-	7	-	-	5

	2014				
Statement of income (EUR million)	TO2	TO8	TOD3	TODV	APX
Revenue	159	118	58	-	27
Depreciation and amortisation	40	1	-	-	3
Other costs	57	18	2	-	19
Operating profit	**62**	**99**	**56**	**-**	**5**
Finance income and (expense)	-24	-30	-3	-	-
Income tax (expense)	-12	-20	-6	-	-1
Profit for the year	**26**	**49**	**47**	**-**	**4**
Other comprehensive income	-	-	-	-	-
Total comprehensive income	**26**	**49**	**47**	**-**	**4**
Attributable to non-controlling interests	17	31	37	-	2
Dividends paid to non-controlling interests	35	-	-	-	2

	2015			
(EUR million)	**TO2**	**TO8**	**TOD3**	**TODV**
Net cash flows from operating activities	201	39	100	-
Net cash flows used in investing activities	-190	-215	-311	-
Net cash flows from financing activities	-11	176	211	-
Change in cash and cash equivalents	**-**	**-**	**-**	**-**

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

6.3 Borrowings

(EUR million)	Effective Interest rate	Maturity	Redemption schedule	2015	2014
1.75% Green Bond 2015-2027 EUR 500 million	1.8%	Jun-27	At maturity	495	-
0.875% Green Bond 2015-2021 EUR 500 million	1.0%	Jun-21	At maturity	497	-
3.88% Bond 2011-2018 EUR 500 million	3.0%	Feb-18	At maturity	510	513
2.13% Bond 2013-2020 EUR 500 million	2.2%	Nov-20	At maturity	498	497
4.50% Bond 2010-2022 EUR 500 million	4.6%	Feb-22	At maturity	497	497
4.63% Bond 2011-2023 EUR 500 million	4.7%	Feb-23	At maturity	497	497
4.75% Bond 2010-2030 EUR 200 million	4.9%	Jun-30	At maturity	195	195
Non-current interest-bearing bonds				**3,189**	**2,199**
2.74% Loan 2012-2023 EUR 150 million	2.7%	Sep-23	At maturity	150	150
4.12% Loan 2010-2021 EUR 150 million	4.1%	Jan-21	At maturity	150	150
0.72% Loan 2015-2032 EUR 500 million	0.7%	2018-2032	Linear	500	-
0.77% Loan 2015-2037 EUR 150 million	0.8%	2018-2037	Linear	150	-
4.44% Loan 2010-2023 EUR 140 million	4.4%	2016-2023	Linear	75	86
4.71% Loan 2010-2022 EUR 40 million	4.7%	2016-2022	Linear	18	22
4.40% Loan 2010-2021 EUR 40 million	4.4%	2016-2021	Linear	17	20
Non-current interest-bearing loans				**1,060**	**428**
Total non-current interest-bearing borrowings				**4,249**	**2,627**
3.25% Bond 2010-2015 EUR 500 million	3.3%	Feb-15	At maturity	-	500
Current interest-bearing bonds				**-**	**500**
Cash loans	0.3%	Jan-16	At maturity	25	-
EUR Commercial papers	0.0%	Jan - Mar-16	At maturity	353	140
USD Commercial papers	0.3%	Mar-15	At maturity	-	41
4.44% Loan 2010-2023 EUR 140 million	4.4%	Nov-16	Linear	11	11
4.71% Loan 2010-2022 EUR 40 million	4.7%	Nov-16	Linear	3	3
4.40% Loan 2010-2021 EUR 40 million	4.4%	May-16	Linear	3	3
Current interest-bearing loans				**395**	**198**
Total current interest-bearing borrowings				**395**	**698**
Total borrowings				**4,644**	**3,325**

For more information about the fair value and applicable accounting policy, see note 6.5 and 6.6, respectively.

6.4 Cash, cash equivalents and bank overdrafts

Cash and cash equivalents consist of collateral securities, short-term bank deposits and cash at bank (excluding bank overdrafts). Cash, cash equivalents and bank overdrafts can be broken down as follows:

	2015			2014		
(EUR million)	At free dispos-al	Not at free disposal	**Total**	At free dispos-al	Not at free disposal	**Total**
Collateral securities	-	42	42	-	38	38
Cash at bank	3	7	10	83	1	84
Cash and cash equivalents	**3**	**49**	**52**	**83**	**39**	**122**
Bank overdrafts	-17	-	-17	-	-	-
Cash and cash equivalents included in assets as held for sale	-	-	-	-	295	295
Total cash and cash equivalents used in cash flow statement	**-14**	**49**	**35**	**83**	**334**	**417**

In 2014, cash and cash equivalents held by APX were included in the assets and liabilities classified as held for sale and were not at the Company's free disposal.

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

ⓘ Accounting policy

In the consolidated statement of cash flows, cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with remaining maturities of three months or less and are presented net of outstanding bank overdrafts. 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.

6.5 Fair values

The table below provides an overview of the carrying value and fair value of financial instruments, including accounting treatment. The table also shows the level in the valuation hierarchy the Group's financial instruments are measured at fair value.

		Carrying amount		Fair value		
(EUR million)	Notes	**2015**	2014	**2015**	2014	Hierarchy
Financial assets						
Financial assets at fair value through profit or loss	5.4	-	1	-	1	Level 2
Financial Liabilities						
Borrowings:						
- Borrowings – bonds	6.3	3,189	2,699	3,562	3,103	Level 1
- Borrowings - other	6.3	1,455	626	1,457	698	Level 2
		4,644	**3,325**	**5,019**	**3,801**	

As at 31 December 2015, the Group did not hold any instruments carried at fair value. Furthermore, the Group concluded that the fair value of the loans and receivables, cash and cash equivalents, account- and other payables, and other financial liabilities approximate their carrying amounts due to the short-term maturities of these instruments.

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

- Level 1: Measurement based on quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Measurement based on inputs other than quoted prices included in 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).

The fair value of the level 2 borrowings is based on discounted cash flows. Financial assets at fair value through profit or loss reflected an USD-EUR foreign exchange swap. A change in the assumptions used to calculate the fair value will not result in a significantly different outcome. There have been no transfers between the fair value hierarchy levels.

6.6 ⓘ Accounting policies for financial instruments

The initial measurement of financial instruments is at fair value on the settlement date, generally at the transaction price that has taken into account the directly attributable transaction costs.

- Financial assets and liabilities held for the purpose of profiting from short-term price fluctuations (held for trading purposes) or accounted for according to the fair value option are classified at fair value through profit or loss.
- All other financial assets with the exception of loans and receivables issued by the Company are classified as available for sale.
- Borrowings and other financial liabilities are classified as borrowings and other liabilities and accounted for at amortised cost.

Measurement and classification

The subsequent measurement of the most relevant financial instruments and their classification is outlined below.

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

Gains or losses attributed to changes in the fair value of financial instruments classified as available for sale are recognised as other comprehensive income until the disposal of the investment. The cumulative gain or loss on the financial instrument previously recognised in other comprehensive income will be reversed, and the gain or loss will be recognised in the income statement.

Changes in the fair value of financial instruments classified at fair value through profit or loss (held for trading purposes or fair value option) are recognised in the income statement and presented as financial income/ expenses.

Financial instruments are included in the balance sheet when the Group becomes a party to the instrument's contractual terms. Financial instruments are derecognised from the balance sheet when the contractual rights or obligations have been fulfilled, cancelled or transferred, or they have expired. 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 instruments are classified as long-term when they are expected to be realised more than 12 months after the balance sheet date. Other financial instruments are classified as short-term.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments not quoted on an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and the fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included as 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.

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.

Derivative financial instruments and hedge accounting

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

TenneT has applied cash flow hedge accounting on FSIRS derivatives used as pre-hedges for the EMTN programme. Changes in the fair value of the swaps forming part of an effective hedge have been recognised in the statement of comprehensive income (hedge reserve). The hedge reserve in equity will be amortised over the periods in which the original hedged item is expected to affect profit or loss.

6.7 Financial risk management

TenneT's activities expose it to a range of financial risks, the main ones being regulatory risk, interest rate risk, credit risk and liquidity risk. TenneT's financial risk management primarily focuses on protecting the liquidity, equity capital and net result in order to safeguard the Group's ability to continue its active operations while providing an adequate return to its shareholders. This note outlines TenneT's approach to managing financial risks, including a number of specific disclosures (such as a maturity analysis of contractual undiscounted financial obligations) required by accounting standards.

Risk management related to regulation is conducted by the Corporate Regulation department under policies approved by the Executive Board. The Company's regulatory risk management objectives, policies and processes were unchanged in 2015 compared to 2014. The objective of the Corporate Regulation department is aligned with the corporate objectives described above. Specific focus is put on an adequate rate of return on invested capital, the financeability of investments and realistic efficiency targets on TenneT's capital and operational expenditures.

Risk management related to financing activities is conducted by the Treasury department under policies approved by the Executive Board. The Company's financial risk management objectives, policies and processes were unchanged in 2015 compared to 2014. The Treasury department's objective is to facilitate TenneT's realisation of its financial and strategic objectives from a funding and financial risk perspective. The Executive Board has approved TenneT's Treasury Statute, which includes principles covering specific areas such as interest rate risk, liquidity risk, the use of derivatives and the investment of excess liquidity. The use of all ordinary course financial instruments is permitted, provided these are used solely to cover positions. Any speculative use of financial instruments is expressly not authorised. The Executive Board has also approved specific risk management solutions such as the issuance of new debt capital market instruments.

TenneT is exposed to the following risks, which are described in more detail below:

1. Regulatory risk;
2. Interest rate risk;
3. Credit risk;
4. Liquidity risk;
5. Refinancing risk.

1. Regulatory risk

A substantial part of TenneT's revenues comes from regulated activities. Changes to the regulatory frameworks directly affect our activities and performance. As such it is important that our activities are regulated by realistic, stable and predictable regulatory frameworks.

The specific risks affecting TenneT are summarised in the next table for both the Netherlands and Germany.

Risk	Risk mitigating actions
Europe	
• Substantial requests from TSOs in other countries for infrastructure financing as part of the Cross-Border-Cost-Allocation procedure for Projects of Common Interest, so-called PCIs	• The objective is to have a solid, legally settled base to include any acknowledged claim in the grid fees, without delay. Therefore it is necessary to build up specific knowledge on PCIs to be able to judge and deal with such requests; Be a competent partner to regulatory authorities to set up reasonable financing arrangements to be applied when justified requests have to be dealt with and lead to payments
• Delay in the national implementation of Network Codes, in the extreme case leading to infringement cases by the European Commission against TenneT	• Be largely involved in the implementation of Network Codes, create the appropriate internal structures to cope with the requirements and engage in the relevant European structures for this purpose
Germany	
• Investments in energy infrastructure could become less attractive in case the regulatory regime (incentive regulation ordinance) will be changed	• TenneT actively participated in the evaluation process and made clear that a stable regulatory framework is necessary to ensure that investments in the energy infrastructure are attractive
• TenneT is not able to achieve a reasonable rate of return on equity within the third regulatory period (2019-2023)	• TenneT seeks dialogue with BNetzA, which will determine the rate of return on equity in Q3 2016, to discuss a solution that reflects the challenges of the energy turnaround in Germany and the higher risk profile for TSOs due to the high investment obligations
The Netherlands	
• Insufficient investment incentives within national regulatory framework	• Implement international best practices regarding financeability of investments in the national regulatory framework that relate to an adequate balance between risk, reward and timely remuneration
• TenneT is not able to achieve a reasonable rate of return on its invested capital as the regulatory WACC is set at a too low level as a consequence of the artificially low risk free interest rate	• TenneT seeks dialogue with its regulator to discuss a solution that reflects the current financial market conditions • ACM is required by court to substantiate its approach to cost of debt in such a way that the efficient costs will be remunerated within a regulatory period
• Inability to achieve the efficiency targets set by the regulator on operational and capital expenditures by organisation measures	• TenneT has successfully appealed at court against the efficiency parameter that was set by ACM based on the national run of the international benchmark study. ACM is required to repair its decision • In new legislation for the electricity sector additional provisions may be introduced such as the treatment of non-influenceable costs in determining and setting the efficiency target.

2. Interest rate risk

The Company is exposed to interest rate risk on its debt portfolio. To manage the Group's interest rate risk, TenneT's policy is to ensure that the majority of its loan portfolio is based on a fixed interest rate. At present, the long-term loan portfolio is wholly based on fixed interest rates, consequently the Group's interest rate risk is very limited. An increase or decrease in interest rates of 2 percentage points would create an increase or decrease of EUR 8 million in the Group's net interest cost (2014: EUR 2 million) results from short-term loans.

Furthermore, the Company is at risk of its interest payable on liabilities exceeding the interest receivable by TenneT under the prevailing regulatory system. The ACM has set the relevant interest rate at 3.85% for the current regulatory period (2014-2016). In Germany, the actual interest rate is compensated up to a predefined maximum on a rolling average basis.

3. Credit risk

In general TenneT is exposed to the risk of loss resulting from counterparties' defaulting on their commitments including failure to pay or make a delivery on a contract. TenneT's exposure to credit risk from its operating activities and treasury activities is inherent in our business activities.

Operational credit risk

In respect of its operating activities, the Group has a credit policy in place, which takes into account the risk profiles of the counterparties. The Group has policies in place to monitor the financial viability of counterparties.

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

Also with respect to the investment projects, TenneT asks certain counterparties to deliver bank guarantees or collaterals as a protection against defaults.

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

The risk on trade receivables is very limited, as the losses are expected to qualify for compensation in future tariffs. Furthermore, TenneT runs no credit risk on its EEG receivables, since all costs are covered (including related credit losses) via the EEG reimbursement mechanism (see also section 5.5.1).

Financial credit risk

In 2015, financial credit risk arose mainly from TenneT's transactions and positions with financial institutions. As at 31 December 2015, the maximum credit risk amounted to EUR 3 million (2014: EUR 83 million).

In accordance with our treasury policies, counterparty credit exposure is monitored frequently against the counterparty credit limits. TenneT has concentration limits in place when funds are placed on deposit or when financial derivatives are arranged. TenneT's policy is that a counterparty must have an 'A-' credit rating or higher. As at 31 December 2015, the Group did not have any deposits with third parties (2014: EUR 12 million).

Management does not expect any significant losses from non-performance by treasury counterparties.

4. Liquidity risk

Liquidity risk is defined as the risk that the Group cannot meet its short-term financial obligations. The Group's objective when managing liquidity is to be able to meet its short-term obligations at all times. The Group monitors the liquidity of the Group every month on a rolling 12-month forward-looking basis. It met the requirement throughout 2015 and 2014, as explained in note 6.1.

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

(EUR million)	Notes	<1 month	1 to 3 months	3 to 12 months	1 to 5 years	Beyond 5 years	Total
As at 31 December 2015							
Borrowings	6.3	183	266	66	1,606	3,404	5,525
Accounts- and other payables	5.6	1,698	322	1,834	-	-	3,854
Other financial liabilities		42	-	-	2	-	44
		1,923	**588**	**1,900**	**1,608**	**3,404**	**9,423**
As at 31 December 2014							
Borrowings	6.3	3	764	49	949	2,366	4,131
Accounts- and other payables	5.6	1,576	361	1,580	-	-	3,517
Other financial liabilities		38	-	-	-	-	38
		1,617	**1,125**	**1,629**	**949**	**2,366**	**7,686**

As shown in the table TenneT has a diversified maturity profile of its borrowings, which is necessary to minimise any refinancing risks (see also paragraph 6.1).

In order to minimise its exposure to liquidity risk, TenneT has a EUR 2.2 billion committed RCF at its disposal for general corporate purposes. As at 31 December 2015, this facility was undrawn. In 2015 the maturity date of the RCF was extended by one year to July 2020. Furthermore TenneT had EUR 150 million of undrawn long-term loan commitments from the EIB available on 31 December 2015. TenneT also had short-term uncommitted credit facilities totalling EUR 375 million as of 31 December 2015. At the balance sheet date EUR 17 million (2014: EUR nil) had been drawn from these facilities.

The size of the credit facilities is such that management expects that all substantial adverse financial developments and events can reasonably be expected to be accommodated and that continuation of day-to-day operations is ensured for at least 12 months. The terms and conditions of the credit facilities include negative pledge and pari passu clauses. No security interest over any of the Group's assets has been provided. All facilities have floating-rate interest conditions.

TenneT also has access to diversified funding sources through its EUR 8 billion EMTN programme and its EUR 2.2 billion CP programme. Both programmes significantly reduce the Company's dependency on the banking sector.

TenneT expects to meet its obligations for 2016 with (i) cash and cash equivalents, (ii) funds from operations (iii) unused credit facilities, and (iv) capital market transactions. TenneT expects to meet its financial obligations for the subsequent years through various capital market transactions and intends to manage future refinancing risks by spreading the tenors of new financing arrangements.

5. Refinancing risk

In addition to the refinancing risk as described in note 6.1, a risk of lack of sustainable access to equity exits. This risk reflects the inability to raise additional equity in a timely fashion in case of changes in investment portfolio or negative regulatory developments. Actions taken in order to mitigate this risk are:
(i) Active financing strategy to create and maintain an optimal capital structure as well as to diversify funding sources and manage financial risks, (ii) Proactive approach of potential investors/active discussion with shareholder to contribute additional equity and (iii) Lobbying activities to ensure that regulatory frameworks remain adequate to safeguard returns to investors.

7. Other disclosures

This section provides information regarding the other mandatory disclosures, such as details of pension liabilities and related party transactions, which are not directly related to our business.

7.1 Net employee defined benefit liabilities

7.1.1 Pension plans Germany

The Group has defined benefit plans for the majority of its German personnel. Said personnel are mainly employed based on collective bargaining or works council agreements and enjoy benefits in the form of old-age, disability and surviving dependents' pensions. The majority of the benefit obligations consist of obligations in which the retirement pension is calculated either on the salaries earned during the most recent years of service (final-pay arrangements) or on a scale of fixed amounts. The level of benefits or contribution to be provided depends on the given participant's salary and years of service.

The Group contributes to two post-employment defined benefit plans in Germany, namely a works council agreement called 'Betriebliche Alterssicherung' (hereafter referred to as 'pension scheme 2001') and a works council agreement called 'Betriebliche Altersversorgung' (hereafter referred to as 'pension scheme 2008'), as well as individual pension commitments.

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

Pension scheme 2001

This scheme covers employees who started working on or before 31 December 2007 (or later if the individual employment contract was agreed on or before 1 April 2008). The scheme became effective on 1 January 2001 and replaced older plans. As part of the transition to the new plan, employees were guaranteed a pension based on the old plan for their years of service prior to the transition. The plan offers benefits in the form of old-age, disability and surviving dependents' pensions, and is composed of the employer-funded basic level based on the respective employee's income, the employer-funded top-up level based on the respective company's performance, and the employee-funded supplementary level which allows employees to increase their pension entitlement through deferred compensation.

Pension scheme 2008

This scheme covers employees who started working after 31 December 2007 (unless the individual employment contract was agreed before 1 April 2008, for which the pension scheme 2001 applies). This scheme offers benefits in the form of old-age, disability and surviving dependents' pensions.

The plan entitles employees to pension payments after retirement once they have reached the statutory retirement age or at the latest reached the age of 67. Pension payments may also be requested at an earlier stage if the employment relationship ends after the respective employee reaches the age of 62.

Pension cost is composed of the employer-funded basic level based on the respective employee's income, the employer-funded top-up level based on the respective company's performance and the employee-funded supplementary level which allows employees to increase their pension entitlement through deferred

compensation. If the employee contribution to the supplementary level reaches a certain level, the company pays an additional contribution of one-third of the respective basic level contribution.

Contributions to the plan earn interest based on the weighted average current yield of German Federal Government Bonds (Bundesanleihen) with different maturities (10, 20 and 30 years). The weighted average current yield is calculated annually and reflects the average duration of the plan.

The differences between the plans are limited, so disclosure is grouped in the notes below based on weighted averages.

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

(EUR million)	2015	2014
Current service cost (note 3.2.2)	10	8
Net interest costs (note 3.4)	2	2
Net benefit expense	**12**	**10**

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

(EUR million)	2015	2014
Defined benefit obligation	214	206
Fair value of plan assets	-84	-80
Funded status/Benefit liability	**130**	**126**

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

(EUR million)	2015	2014
Defined benefit obligation at 1 January	**206**	**139**
Current service cost	10	8
Interest cost	4	5
Benefits paid	-1	-
Intitial recognition from acquisition	4	-
Re-measurements on obligation	-9	54
Defined benefit obligation at 31 December	**214**	**206**

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

(EUR million)	2015	2014
Fair value of plan assets at 1 January	**80**	**71**
Actual return on plan assets	2	3
Contributions by employer	2	6
Benefits paid	-	-
Fair value of plan assets at 31 December	**84**	**80**

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

	2015	2014
Quoted in active markets:		
Equity instruments	27%	19%
Debt securities	57%	63%
Investment funds	2%	4%
Other	2%	2%
Unquoted investments:		
Equities	3%	1%
Debt securities	2%	2%
Real estate	5%	5%
Cash	**2%**	**4%**

The re-measurements, including the actuarial gains and losses arising from experience adjustments and changes in the actuarial assumptions, recognised in the statement of comprehensive income are as follows:

(EUR million)	2015	2014
Accumulated balance as at 1 January	**98**	**44**
Re-measurements during the year	-9	54
Accumulated re-measurements at 31 December	**89**	**98**

ⓘ Accounting policy

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

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

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

Key estimates and assumptions

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

	2015	2014
Discount rate	2.50%	2.30%
Inflation rate	2.00%	2.00%
Future salary increases	2.50%	2.50%
Future pension increases	2.00%	2.00%

Assumptions regarding future mortality experience are set based on actuarial advice in accordance with published statistics and experience. A change in the main assumptions would have had the followings effects:

(EUR million)	Effect DBO
0.25% change of discount rate	12
0.5% change of salary increase rate	3
0.5% change of pension increase rate	-
10% change in mortality rate	7

The Group expects to contribute EUR 2 million to its defined benefit pension plans in 2016 and expects the following, undiscounted, benefit payments from the plan:

(EUR million)	2015	2014
Within the next 12 months	2	1
Within 2 and 5 years	15	11
Within 5 and 10 years	29	25
Beyond 10 years	612	597
Total	**658**	**634**

7.1.2 Pension plan the Netherlands

TenneT has a multi-employer scheme for the majority of its Dutch personnel, which is administered by the ABP Pension Fund (ABP). ABP has indicated that it is unable to provide the kind of company-specific information required by IFRS for defined-benefit pension schemes. As such, this scheme is treated as if it were a defined contribution scheme.

In 2016 the Group expects to contribute EUR 11 million to the multi-employer scheme administered by the ABP in the Netherlands. In 2008 the funding ratio of the ABP pension fund deteriorated. Consequently ABP introduced a recovery plan in 2009. In accordance with this recovery plan, ABP evaluates how recovery is progressing at the start of each year. Progress is measured by means of the funding ratio at the end of the preceding year. A new method of calculating the funding ratio was effective from 2015. This method calculates the 12-month moving average of the nominal funding ratio (called policy funding ratio). ABP's policy funding ratio as at 31 December 2015 is 98.7% (2014: 104.7%). Compared to the total participants in the ABP pension fund, TenneT's share in ABP is very limited.

ⓘ Accounting policy

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

7.2 Other commitments and contingencies

(EUR million)	2015	2014
Grid related commitments	1,047	1,032
Guarantees issued	2,534	2,170
Other off-balance sheet commitments	23	6
Total off-balance sheet obligations	**3,604**	**3,208**
Off-balance sheet rights		
Government guarantees received	300	300
Other off-balance sheet rights	81	71
Total off-balance sheet rights	**381**	**371**

7.2.1 Grid related commitments

Grid-related commitments include the unused auction receipts in the Netherlands amounting to EUR 831 million (2014: EUR 721 million). TenneT sells cross-border transport capacity through auctions. In the Netherlands, the received cash is restricted.

7.2.2 Guarantees issued

The majority of the guarantees issued are issued by TenneT Offshore 2. Beteiligungsgesellschaft mbH and TenneT Offshore 8. Beteiligungsgesellschaft mbH to the fiscal agent of the bond holders under the EMTN programme. The guarantee equals the consolidated asset base of the respective companies, based on the German GAAP figures from the previous year. The guarantees are capped at EUR 1,082 million and EUR 1,418 million, respectively.

7.2.3 Government guarantees received

A written put option -with an exercise price of EUR 375 million and an original term of 10 years until February 2020- obliges TenneT Orange B.V. to buy the participation in TenneT TSO Duitsland B.V. held by the foundation 'Beheer Doelgelden Landelijk Hoogspanningsnet' when it is offered. TenneT Orange B.V.'s obligation is substantially covered by a guarantee issued by the Dutch State for an amount of EUR 300 million.

7.2.4 Other

TenneT received certain claims from its customers, a portion of which relate to refunds of transmission services which TenneT believes are unlikely to prevail in court. The Group also has various other off-balance sheet commitments and contingencies as well as other off-balance sheet rights which are not large enough to warrant separate disclosure.

7.3 Related parties

Note 7.4. provides an overview of legal entities included in the consolidated financial statements.

TenneT has the following related parties:

- State of the Netherlands: TenneT Holding B.V. is controlled by the Dutch state, which owns 100% of the Company's shares;
- Open Tower Company B.V.: OTC is deemed related since it is an indirect participation of TenneT Holding B.V.;
- Mobile Radio Networks Vehicle B.V.: MRNV is deemed a related party because it is an indirect participation of TenneT Holding B.V. Two loans were issued to MRNV, see note 5.4.

Legal entities that share key management personnel
Mr Kroon is an ordinary member of the Supervisory Board of the Port of Rotterdam. TenneT has a ground lease agreement with the Port of Rotterdam. Mr Kroon was not involved in the negotiations or in the decision-making process regarding this lease agreement.

Mrs Hottenhuis is a member of the Executive Board of ARCADIS N.V. ARCADIS is one of TenneT's suppliers. Ms Hottenhuis has not been involved in any business dealings between ARCADIS and TenneT. Contract reviews, negotiations or awards between the two companies were conducted at the appropriate business levels and in the ordinary course of business.

Mr Fischer is Chief Technical Officer Tata Steel Europe and Site Director Tata Steel in IJmuiden. Tata Steel is one of TenneT's customers. Mr Fischer has not been involved in any business dealings between Tata Steel and TenneT. Contract reviews, negotiations or awards between the two companies were conducted at the appropriate business levels and in the ordinary course of business.

Mr Veenman is a member of the Supervisory Board Prysmian Holding Netherlands N.V. Prysmian is one of TenneT's suppliers. Mr Veenman has not been involved in any business dealings between Prysmian and TenneT. Contract reviews, negotiations or awards between the two companies were conducted at the appropriate business levels and in the ordinary course of business.

The Port of Rotterdam, ARCADIS, Tata Steel and Prysmian are not considered related parties.

7.4 Consolidated subsidiaries

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

			Voting interest		Economic interest		
Subsidiary	Legal Seat	Country	2015	2014	2015	2014	
APX Balancing B.V.	Amsterdam	Netherlands	-	71%	-	71%	
APX Clearing B.V.	Amsterdam	Netherlands	-	71%	-	71%	
APX Holding B.V.	Amsterdam	Netherlands	-	71%	-	71%	
APX Power B.V.	Amsterdam	Netherlands	-	71%	-	71%	
APX Shipping B.V.	Amsterdam	Netherlands	-	71%	-	71%	
APX Staffing B.V.	Amsterdam	Netherlands	-	71%	-	71%	
B.V. Transportnet Zuid-Holland	Voorburg	Netherlands	100%	100%	100%	100%	*
CertiQ B.V.	Arnhem	Netherlands	100%	100%	100%	100%	
Duvekot Rentmeesters B.V.	Bathmen	Netherlands	100%	100%	100%	100%	
HS Netten Zeeland B.V.	Middelburg	Netherlands	100%	100%	100%	100%	*
Nadine Netwerk B.V.	Arnhem	Netherlands	100%	100%	100%	100%	*
NLink International B.V.	Arnhem	Netherlands	100%	100%	100%	100%	*
NOVEC B.V.	The Hague	Netherlands	100%	100%	100%	100%	
Omroepmasten B.V.	Vianen	Netherlands	100%	100%	100%	100%	
Saranne B.V.	Arnhem	Netherlands	100%	100%	100%	100%	*
Stichting Beheer Doelgelden Landelijk Hoogspanningsnet	Arnhem	Netherlands	N/A	N/A	N/A	N/A	
TenneT Blue B.V.	Arnhem	Netherlands	100%	100%	100%	100%	*
TenneT Duitsland Coöperatief U.A.	Arnhem	Netherlands	100%	100%	100%	100%	*
Tennet Green B.V.	Arnhem	Netherlands	100%	-	100%	-	
TenneT Orange B.V.	Arnhem	Netherlands	100%	100%	100%	100%	

			Voting interest		Economic interest		
Subsidiary	Legal Seat	Country	2015	2014	2015	2014	
TenneT TSO B.V.	Arnhem	Netherlands	100%	100%	100%	100%	
TenneT TSO Duitsland B.V.	Arnhem	Netherlands	100%	100%	100%	100%	*
TenneT TSO E B.V.	Arnhem	Netherlands	100%	100%	100%	100%	*
TransTenneT B.V.	Arnhem	Netherlands	100%	100%	100%	100%	*
WL Winet B.V.	Maasdijk	Netherlands	100%	100%	100%	100%	
DC Netz BorWin3 GmbH	Bayreuth	Germany	100%	100%	100%	100%	
DC Netz BorWin4 GmbH	Bayreuth	Germany	100%	100%	100%	100%	
DC Netz DolWin4 GmbH	Bayreuth	Germany	100%	100%	100%	100%	
DC Netz GmbH	Bayreuth	Germany	100%	100%	100%	100%	
DC Netz HelWin1 GmbH	Bayreuth	Germany	100%	100%	100%	100%	
DC Netz SylWin2 GmbH	Bayreuth	Germany	100%	100%	100%	100%	
TenneT GmbH & Co. KG	Bayreuth	Germany	100%	100%	100%	100%	**
TenneT Offshore 1. Beteiligungsgesellschaft mbH	Bayreuth	Germany	51%	51%	31%	31%	
TenneT Offshore 2. Beteiligungsgesellschaft mbH	Bayreuth	Germany	51%	51%	31%	31%	
TenneT Offshore 4. Beteiligungsgesellschaft mbH	Bayreuth	Germany	100%	100%	100%	100%	
TenneT Offshore 7. Beteiligungsgesellschaft mbH	Bayreuth	Germany	100%	100%	100%	100%	
TenneT Offshore 8. Beteiligungsgesellschaft mbH	Bayreuth	Germany	51%	51%	37%	37%	
TenneT Offshore 9. Beteiligungsgesellschaft mbH	Bayreuth	Germany	51%	51%	37%	37%	
TenneT Offshore Dolwin 3 Beteiligungs GmbH & Co. KG	Bayreuth	Germany	51%	100%	38%	22%	
TenneT Offshore Dolwin 3 GmbH & Co. KG	Bayreuth	Germany	51%	100%	38%	22%	**
TenneT Offshore Dolwin 3 Verwaltungs GmbH	Bayreuth	Germany	51%	100%	38%	22%	**
TenneT Offshore GmbH	Bayreuth	Germany	100%	100%	100%	100%	
TenneT TSO GmbH	Bayreuth	Germany	100%	100%	100%	100%	
TenneT Verwaltungs GmbH	Bayreuth	Germany	100%	100%	100%	100%	
WL Winet GmbH	Bayreuth	Germany	100%	-	100%	-	
APX Commodities Ltd.	Nottingham	United Kingdom	-	71%	-	71%	
Belpex S.A.	Brussels	Belgium	-	71%	-	71%	

* For these companies TenneT has issued a declaration of liability as referred to in Book 2, Part 9, Section 403 of the Netherlands Civil Code.
** This company, which has been consolidated in these financial statements, has opted for the exemption under Section 264b of the German Commercial Code regarding the publication of the management report.

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

7.5 Events after the reporting period

No significant events after the reporting period have occurred.

Company financial statements

Company statement of income

For the year ended 31 December (EUR million)

(EUR million)	2015	2014
Result TenneT Holding B.V. after income tax	38	-13
Profit from Group companies after income tax	-10	554
Profit for the year	**28**	**541**

Company statement of financial position

For the year ended 31 December (EUR million)

Assets	Notes	2015	2014
Non-current assets			
Investments in subsidiaries	8.2	4,977	5,175
Investments in joint ventures and associates	8.3	36	-
Other financial assets	8.4	4,636	4,044
		9,649	**9,219**
Current assets			
Other financial assets	8.4	464	118
Accounts- and other receivables		3	-
Cash and cash equivalents		-	80
		467	**198**
Total assets		**10,116**	**9,417**

Equity and liabilities	Notes	2015	2014
Equity	8.5		
Paid up and called-up capital		100	100
Share premium		600	600
Hedging reserve		5	4
Reserve for exchange rate differences		-	-2
Retained earnings		2,012	1,621
Unappropriated result		-5	493
Equity attributable to ordinary shares		**2,712**	**2,816**
Hybrid securities		520	520
Equity attributable to owners of the company		**3,232**	**3,336**
Non-current liabilities			
Borrowings	8.6	4,249	2,627
Deferred tax liabilities		5	2
		4,254	**2,629**
Current liabilities			
Borrowings	8.6	395	698
Accounts- and other payables	8.7	2,218	2,754
Bankoverdrafts		17	-
		2,630	**3,452**
Total equity and liabilities		**10,116**	**9,417**

Notes to the company financial statements

This section of the report provides information about the standalone financial statements of TenneT Holding B.V. The notes contain the underlying details related to the Company's financial results and position, as well as a description of the specific accounting policies applied when compiling the Company financial statements.

8.1 Company accounting policies

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

8.2 Investments in subsidiaries

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

(EUR million)	2015	2014
As at 1 January	**5,175**	**4,750**
Share in result	-10	554
Dividends received	-185	-89
Re-measurement of defined benefit pension	7	-38
Net effect on (partial) sale/acquisition of subsidiaries	-10	-2
As at 31 December	**4,977**	**5,175**

Investments in subsidiaries relate to the legal entities included in the consolidation as disclosed in note 7.4 of the consolidated financial statements.

ⓘ Accounting policies

The investments in subsidiaries are measured at net asset value. The net asset value of a participating interest is determined by valuing the assets, provisions and liabilities and calculating the result using the accounting principles applied to the consolidated financial statements.

When the Company's share of losses in an investment equals or exceeds its interest in the investment, (including separately presented goodwill or any other unsecured non-current receivables, as 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 this case, TenneT will recognise a provision.

Key estimates and assumptions

The Company's investments in subsidiaries have been tested for impairment by comparison against the value of the subsidiaries' invested capital (i.e. tangible fixed assets) based on the fair value calculated using the same assumptions as noted for the testing of goodwill impairment in note 5.1

8.3 Investments in joint ventures and associates

The investments in joint ventures and associates are mainly related to TenneT's investment in HGRT. As a result of the sale of APX (see note 5.2) TenneT initially increased its interest in HGRT to 40% in 2015. In the course of 2015 TenneT sold 6% of its shareholding in HGRT for a cash consideration of EUR 6 million, giving rise to a gain of EUR 4 million. As at 31 December 2015, TenneT owns a 34% stake in HGRT. See also note 5.3.2 of the consolidated financial statements.

8.4 Other financial assets

	2015		2014	
(EUR million)	**Current**	**Non-current**	Current	Non-current
Receivables from subsidiaries	462	4,630	116	4,037
Credit faciltiy fees	2	6	2	7
Total	**464**	**4,636**	**118**	**4,044**

The receivables from subsidiaries are mainly related to intercompany loans and the in house bank activities of TenneT Holding B.V. The terms on these receivables are not fixed. The agreed interest rate is Euribor +0.125%. No security has interest provided. The movement schedule is as follows:

	2015	2014
At 1 January	**4,162**	**3,385**
Additions	1,499	1,038
Repayments	-559	-259
Other movements	-2	-2
At 31 December	**5,100**	**4,162**

8.5 Equity

The statement of changes in equity and disclosure to that statement are included in the consolidated financial statements. For details on the hybrid securities see note 6.2.1 of the consolidated financial statements.

In addition to the statement of changes in equity, a legal reserve was created in shareholder equity for a revaluation reserve of EUR 75 million (2014: EUR 86 million) and a reserve for participating interest of EUR 7 million (2014: EUR 6 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 one-off exception allows tangible fixed assets to be stated at their fair value on the transition date. This figure has subsequently been used as the 'deemed cost price'. The size of the revaluation reserve corresponds to that part of the restated value of the tangible fixed assets resulting from application of the fair value exception, less the deferred tax liability.

The reserve for participating interests relates to HGRT, for which TenneT cannot secure payment of dividends.

The hedging reserve, the revaluation reserve and the reserve for participating interests are not freely distributable.

8.6 Borrowings

Details on the borrowings are included in the consolidated financial statements, see note 6.3.

8.7 Accounts- and other payables

(EUR million)	2015	2014
Payables to subsidiaries	2,114	2,621
Interest payable	78	84
Current income tax payable	21	45
Other payables	5	4
Total	**2,218**	**2,754**

Arnhem, 3 March 2016

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

Supervisory Board TenneT Holding B.V.
A.W. Veenman
P.M. Verboom
R.G.M. Zwitserloot
S. Hottenhuis
J.L.M. Fischer
L.J. Griffith

* Statutory Director

Other information

Profit appropriation

The appropriation of profits is governed by Section 38.3 of the Articles of Association, which states the following 'To the extent that the profit is not used to make up prior losses in accordance with the provision of paragraph 2, it shall be at the free disposal of the general meeting. In the calculation of the profit amount to be distributed on every share, only the amount of the compulsory payments on the nominal amount of the shares shall be taken into consideration. In the event of a tied vote on a proposal to distribute or reserve profits, the profits to which the proposal relates shall be reserved'.

The appropriation of the 2015 profit is at the free disposal of the General Meeting of Shareholders and has not been recorded in the financial statements. Management has proposed to pay a dividend of EUR 196 million to the shareholder.

Events after the reporting period

See note 7.5.

Independent auditor's report

See the following pages of this integrated annual report.

Independent auditor's report

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

Report on the audit of the financial statements 2015

Our opinion

We have audited the financial statements 2015 of TenneT Holding B.V., based in Arnhem. The financial statements include the consolidated financial statements and the company financial statements.

In our opinion:

- The consolidated financial statements give a true and fair view of the financial position of TenneT Holding B.V. as at 31 December 2015 and of its result and its cash flows for 2015 in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code
- The company financial statements give a true and fair view of the financial position of TenneT Holding B.V. as at 31 December 2015 and of its result for 2015 in accordance with Part 9 of Book 2 of the Dutch Civil Code

The consolidated financial statements comprise:

- The consolidated statement of financial position as at 31 December 2015;
- The following statements for 2015: the consolidated income statement, the consolidated statements of comprehensive income, changes in equity and cash flows; and
- The notes comprising a summary of the significant accounting policies and other explanatory information.

The company financial statements comprise:

- The company balance sheet as at 31 December 2015;
- The company profit and loss account for 2015; and
- The notes comprising a summary of the significant accounting policies and other explanatory information.

Basis for our opinion

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

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

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

Materiality

Materiality	EUR 44 million
Benchmark used	1.4% of the Equity attributable to owners of the company
Additional explanation	We have determined equity to be the most relevant measure for TenneT's primary stakeholders, being the Dutch Government (sole shareholder) and external investors in both equity and liability instruments of the group. A sufficient equity balance and solvency ratio is in our view the most relevant measure for the capital providers to make their investment decisions, also considering the long-term nature of TenneT's core business.

We have also taken into account misstatements and/or possible misstatements that in our opinion are material for the users of the financial statements for qualitative reasons.

We agreed with the Supervisory Board that misstatements in excess of EUR 2.2 million (being 5% of the materiality), which are identified during the audit, will be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

Scope of the group audit

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

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

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

The procedures described above provide coverage of 92% of reported profit before tax and 98% of the total assets of the Group.

By performing the procedures mentioned above at group entities, together with additional procedures at group level, we have been able to obtain sufficient and appropriate audit evidence about the group's financial information to provide an opinion about the consolidated financial statements.

Our key audit matters

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

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

Topic	Our audit response
TenneT's 'underlying' financial performance reflected in Segment Reporting (IFRS 8), as disclosed in note 2 of the financial statements	
The Executive Board manages and monitors its business based upon 'underlying' financial information, as explained in note 2 'Segment Information'. The underlying financial information is also used in the 'Financial' section of the Executive Board report. The consolidated IFRS financial statements and the underlying financial information differ with respect to the recognition of regulatory assets, regulatory liabilities and auction proceeds related to cross border interconnection capacity. The implications are primarily that auction proceeds and over- and underachievement on the regulatory allowed revenue for a given period, which are presented as revenues in the IFRS financial statements, are presented as assets or liabilities in the underlying financial information if, based on the prevailing regulatory framework, these can be recouped or are required to be returned through future grid tariffs. TenneT's Executive Board believes that underlying financial information better represents its actual business and financial performance, and therefore uses it for the Executive Board reporting and analysis, as well as for internal decision-making and financial planning purposes. The underlying financial information is reconciled to the consolidated IFRS financial statements in note 2.	We have assessed whether the underlying financial information reflects how TenneT's Executive Board assesses performance and manages the business, by reference to the internal quarterly reporting and other internal financial reports and analyses, including minutes of board meetings. We obtained the internal quarterly reporting that the Executive Board receives and reconciled that information to the segments identified in the segment reporting. We have obtained a detailed understanding of the regulatory frameworks in the Netherlands and Germany, and audited the movements in respect of the underlying regulatory assets and liabilities referenced above and the reconciliation of underlying financial information to the consolidated IFRS financial statements.
Implications of regulatory developments on the financial information as disclosed in notes 2.3, 4.1 and 6.1 of the financial statements)	
Following discussions with the regulator Autoriteit Consument en Markt ('ACM') on the manner in which investments in interconnector capacity should be financed in the future, TenneT signed a new policy framework for interconnectors on 15 December 2015. This framework results in TenneT having to utilize future auction receipts to reduce future tariffs (note 2.3). As such, the auction receipts balance currently presented as a difference between the IFRS financial statements and the underlying financial information will decline in future years. Another consequence is that the future economic benefits embodied in the NorNed asset have been reduced to nil as per 31 December 2015, resulting in a decrease in value due to regulatory changes amounting to € 232 million. During the year, the efficiency benchmark included in the current 6th Method for the regulatory period 2014-2016 was amended. This resulted in recognizing an impairment reversal of €90 million in the underlying financial information with respect to an impairment recognized in 2010. Future regulatory developments may significantly impact TenneT's ability to raise and/or refinance debt obligations (note 6.1) and equity capital to fund its extensive onshore and offshore investment portfolio. Stable and financially adequate regulatory regimes in the Netherlands and Germany are required for TenneT to have continued and sufficient access to sources of debt and equity capital.	We have assessed the Executive Board's assessment of the recoverable amount of the NorNed cable and the Netherlands onshore grid. We have involved our valuation experts in our audit procedures, to challenge the assessment of the Executive Board and to ensure the implications have been appropriately recognized in the financial statements. We have read the correspondence with the ACM on the changes in the regulatory framework and the auction receipts agreement and assessed whether these have been appropriately reflected in the Executive Board's assessment. We discussed potential future regulatory developments with TenneT's regulatory specialists. We received and discussed the medium and long-term business plans of TenneT, including the investment forecasts and ensuing liquidity and long-term financing needs contained therein. Furthermore, we discussed with and challenged management on, the assumptions underpinning these plans.
Growth in renewable energy sources and the implications for Grid Expenses, as disclosed in (note 3.2.1 and 5.6.3 of the financial statements	
The increase in intermittent renewable energy generation, such as onshore and offshore wind and onshore photovoltaic capacity, impacts the German onshore grid significantly. TenneT needs to ensure a stable grid operation and to achieve this, balancing measures are needed. The number of measures has grown compared to prior years, and, consequently, the related expenses increased significantly. When balancing measures executed by TenneT reduce the in-feed of renewable energy into the onshore grid, operators are entitled to a reimbursement. These reimbursements are current year expenses for TenneT, but, under the regulatory framework, they are reimbursed through tariffs 2 years later. During the year, the balancing measures have significantly increased, resulting in a significant increase in the System Services line of the Grid Expenses (note 3.2.1). These additional expenses will be reimbursed in 2017 through the revenue cap in Germany.	We have obtained a detailed understanding of TenneT's estimation process in relation to the accrual for balancing measures and other grid related expenses. TenneT is depending on local Distribution System Operators ('DSOs') to provide detailed information on the manner in which they effect the measures that TenneT takes, as they are responsible for the execution of the measures. We obtained and audited evidence to support the Executive Board's estimates and key assumptions used in establishing the related accruals, in particular price assumptions, the type of renewable energy producer (onshore/offshore wind; photovoltaic) and the reduction in volume for the renewable energy producers and agreed these key metrics back to underlying sources. We also tested the integrity of the measurement model, including the formulas applied in the model.
Offshore related provisions, as disclosed in note 5.7 of the financial statements	
Offshore grid connections and related undersea cabling and landside stations, which are required to be built by TSO Germany to connect offshore wind farms to the onshore high voltage grid, are in various stages of construction. The engineering, procurement and construction of these projects is complex, large in size and executed in parallel for a number of projects. In prior years, the liability risks resulting from delays or interruptions, asset retirement obligations and specific project related risks led to the recognition of significant provisions in the financial statements. With 5 projects completed during 2015 and as TenneT gained more experience with the operation of offshore platforms, including the successful solution of technical issues in the start-up phase, the Executive Board's ongoing assessment of offshore risks resulted in a net release of provisions during the year.	We obtained evidence to support the Executive Board's estimates and key assumptions used in establishing the various provisions, in particular probability assumptions and reimbursement amounts. We also tested the integrity of the measurement model, including the formulas applied therein. We evaluated the reasonableness of the Executive Board's judgements and assumptions applied in measuring the provisions recognised on the Group's statement of financial position as well as the disclosures included in Note 5.7.

Responsibilities of the Executive Board and the Supervisory Board for the financial statements

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

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

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

Our responsibilities for the audit of the financial statements

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

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

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

We have exercised professional judgment and have maintained professional skepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit included, e.g.:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Executive Board.
- Concluding on the appropriateness of the Executive Board's use of the going concern basis of accounting, and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause an the company to cease to continue as a going concern.

- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures.
- Evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

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

Report on other legal and regulatory requirements

Report on the Executive Board report and the other information

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

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

Engagement

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

Zwolle, 3 March 2016

Ernst & Young Accountants LLP

Signed by A.E. Wijnsma

Assurance report of the independent auditor

To: the general meeting of shareholders and the Supervisory Board of TenneT Holding B.V.

We have reviewed the sustainability information in the chapters “TenneT at a glance”, “Profile”, “Letter from the CEO”, “Stakeholder dialogue”, “Executive Board Report (excluding the section called “Financial”)”, in the Integrated Annual Report for the year 2015 (hereafter: the Report) of TenneT Holding B.V., Arnhem (hereafter: (TenneT). The Report comprises a description of the policy, the activities, events and performance of TenneT relating to sustainable development during the reporting year 2015.

Limitations in our scope

The Report contains prospective information, such as ambitions, strategy, targets, expectations and projections. Inherent to this information is that actual future results may be different from the prospective information and therefore may be uncertain. We do not provide any assurance on the assumptions and feasibility of this prospective information

The GRI index 2015, as published on CSR section of TenneT's website, is integral part of the Report and therefore of our assurance engagement. Other references (to www.tennet.eu, external websites and other documents) are outside the scope of our assurance engagement.

Management’s responsibility

Management of TenneT is responsible for the preparation of the Report in accordance with the Sustainability Reporting Guidelines G4 (option Core) of the Global Reporting Initiative (GRI), including the identification of the stakeholders and the determination of material issues, and the reporting criteria developed by TenneT. The disclosures made by management with respect to the scope of the Report and the reporting criteria are included in the section “Enclosures” of the Report and in “Definitions integrated annual report and green bond report 2015” on TenneT’s website.

Furthermore management is responsible for such internal control as it determines is necessary to enable the preparation of the Report that is free from material misstatement, whether due to fraud or error.

Auditor’s responsibility

Our responsibility is to express a conclusion on the Report based on our review. We conducted our review in accordance with Dutch law, including the Dutch Standard 3810N “Assurance engagements relating to sustainability reports”. This requires that we comply with ethical requirements and that we plan and perform the review to obtain limited assurance about whether the Report is free from material misstatement.

A review is focused on obtaining limited assurance. The procedures performed in obtaining limited assurance are aimed on the plausibility of information which does not require exhaustive gathering of evidence as in engagements focused on reasonable assurance. The performed procedures consisted primarily of making inquiries of management and other within the entity, as appropriate, applying analytical procedures and evaluating the evidence obtained. Consequently a review engagement provides less assurance than an audit.

Procedures performed

Our main procedures included the following:

- Performing an external environment analysis and obtaining an understanding of the sector, relevant social issues, relevant laws and regulations and the characteristics of the organisation.
- Evaluating the acceptability of the reporting policies and their consistent application, such as assessment of the outcomes of the stakeholder dialogue and the reasonableness of accounting estimates made by management.
- Evaluating the application level in accordance with the Sustainability Reporting Guidelines G4 (option Core) of GRI.
- Evaluating the design and implementation of the systems and processes for data gathering and processing of information as presented in the Report.
- Interviewing management (or relevant staff) at corporate and business division level responsible for the sustainability strategy and policies.
- Interviews with relevant staff responsible for providing the information in the Report, carrying out internal control procedures on the data and the consolidation of the data in the Report.
- Evaluating internal and external documentation, in addition to interviews, to determine whether the information in the Report is reliable.
- Analytical review of the data and trend explanations submitted for consolidation at group level.

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

Conclusion

Based on our procedures performed, and with due consideration of the limitations described in the paragraph "Limitations in our scope", nothing has come to our attention that causes us to conclude that the sustainability information in the Report, in all material respects, does not provide a reliable and appropriate presentation of the policy of TenneT for sustainable development, or of the activities, events and performance of the organisation relating to sustainable development during 2015, in accordance with the Sustainability Reporting Guidelines G4 (option Core) of the GRI and the reporting criteria developed by TenneT as disclosed in the section "Enclosures" of the Report and in "Definitions integrated annual report and green bond report 2015" on TenneT's website.

Rotterdam, 3 March 2016

Ernst & Young Accountants LLP

signed by R.T.H. Wortelboer

Enclosures

Reporting principles

Scope

This integrated annual report describes TenneT's operational, financial and social performance in 2015. Stakeholder interests are crucial in defining the reporting scope, reflecting the importance of our role for the security of electricity supply in the Netherlands and Germany.

TenneT's integrated annual report 2014 was published 13 March 2015 and is available online.

Reporting principles

We use the Integrated Reporting (IR) framework, as defined by the International Integrating Reporting Council (IIRC), as a basis for preparing this integrated report. This serves as an 'umbrella' for the report and allows us to be transparent about our impact as an organisation. The financial information in this report has been prepared in accordance with IFRS, as adopted by European Union and complies with Title 9 of Book 2 of the Dutch Civil Code. The non-financial qualitative and quantitative information has been prepared In accordance with sustainability guidelines defined by the Global Reporting Initiative version 4 Core (GRI G4 core). The GRI table, as included on our corporate website, shows which GRI aspects are material to TenneT and refers to the section in the report that describes this aspect. Furthermore, and in accordance with the policy on state-owned companies ('Nota Deelnemingenbeleid Rijksoverheid 2013'), TenneT complies with the Dutch Corporate Governance Code, which is laid down in the Corporate Governance section of this report. This report is also an update on how we implement the 10 principles of the United Nations Global Compact (UNGC). For more detailed information about our the GRI table on our progress on UNGC go to the CSR section of our website.

Stakeholders and materiality

In accordance with the applied reporting principles, this integrated report only covers topics considered material to our organisation. Reference is made to our corporate website (www.tennet.eu), where information that was not considered material for annual integrated reporting purposes can be found. We defined the material topics based on stakeholder interviews, combined with our own assessment of the economic, environmental and social impact. The outcome of this assessment can be found in the 'Stakeholder dialogue' chapter.

The fact that we report on selected topics does not mean we do not manage aspects that are not considered material to our business. Our activities and CSR policy are broader and are not limited to the outcome of the materiality analysis. For more detailed information go to the CSR section of our website.

Data collection process

This integrated report covers the full year 2015 (i.e. 1 January 2015 to 31 December 2015). This includes all activities of TenneT and subsidiaries in which it holds a controlling interest (in general >50% voting interest). In May 2015, TenneT sold its interest in APX. As a result, APX is not consolidated from that date. The reported data is obtained from financial and non-financial data management systems in our own operations. TenneT's Executive Board and senior management contributed to the report content and quantitative data. The key non-financial qualitative and quantitative data is included in the regular planning and control cycle and is reported internally at least once each quarter. The definitions and calculations used are disclosed in the 'abbreviations and definitions' section of this integrated report.

The definitions and calculations used have been re-assessed based on, for instance, process improvements, further alignment within the Group and the materiality analysis. As a result, certain originally reported comparative figures have been re-classified to conform to the current year's presentation.

External assurance

The financial statements included in this report are subject to independent external audit and TenneT's non-financial reporting is subject to an assurance review. These have both been conducted by our external auditor, EY Accountants LLP.

Management approach CSR

For TenneT, CSR covers a broad range of subjects, all aimed at creating a sustainable future for our internal and external stakeholders.

Based on input from stakeholders' and TenneT's own perspective, we identified four CSR pillars: markets, society, environment and employees. The material topics are categorised within these four pillars. The progress on each material topic is reported in the corresponding chapters of this annual report.

The CSR mid-term plan 2015-2017, discussed and agreed by the Executive Board and Supervisory Board, describes the ambition level for each material topic based on the CSR maturity ladder (defensive, responsible, strategic and transformative). To ensure progress each project defined in the CSR action plan 2015 is owned by a responsible senior manager and the CSR policy advisor, who reports to the senior manager Corporate Control. We have established a CSR board, which monitors progress on the CSR mid-term plan and advises the Executive Board on the integration of CSR into the business. The CSR board, which meets quarterly, is chaired by the CFO and includes senior managers from Asset Management, Large Projects, Communication and Finance.

It is TenneT's ambition to be among the best performing TSOs in CSR in Western Europe and we continuously look for innovations and opportunities to improve our CSR performance. We benchmark ourselves against our peers using external assessment processes, such as the Transparency Benchmark (NL), Oekom, Sustainalytics and Vigeo.

Risk matrix

TenneT's risk appetite is represented by a risk matrix, which is used to determine and evaluate the possible impact and likelihood of occurrence of the identified risks within the company. The first table presents the types of risks and their effect on TenneT if such risks would materialise, whereas the bottom table combines the frequency of a risk possibly materialising with the effect on TenneT. TenneT's risk appetite can be derived from the table. Risks which score 'medium' or higher require mitigating actions by the risk owners. Aggregated risks with a score 'high' and 'very high' are reported periodically to the Executive Board and Supervisory Board. Should any unacceptable risk materialise, these will also be reported, but it should be noted that TenneT in principle does not accept such risks.

Risk Matrix	Effect						
	1 Minor	2 Very small	3 Small	4 Moderate	5 Considerable	6 Serious	7 Extreme
Safety	Minor injury without first aid	Minor injury with first aid	Medical treatment by a GP	Absence due to injury	Absence due to injury > 7wk	Permanent injury	Casualty
Financial	< 1 k€	1 k€ - 10 k€	10 k€ - 100 k€	100 k€ - 1 M€	1 M€ - 10 M€	10 M€ - 100 M€	> 100 M€
Reputation:							
- Media attention	Internal unrest without media attention	Local media attention	Unrest in sector without media attention	Regional media attention	Limited time national media attendion	Considerable time national media attendion	Long time national media attendion or international media attention
- Political attention					Political attention on local level	Political attention on national level	Political treatment on national level
Customers	Single complaint	Claim < 10 k€	Multiple complaints, or grouped complaint	Claim < 1 M€	Claim > 1 M€	Complaint by sector, treatment by sector	National and political treatment of complaint
Environment	Minor, easy to repair	Very small, repairable within limited time	Small, repairable	Moderate, difficult to repair	Consider-able, very difficult to repair	Serious, hardly repairable	Extreme, non-repair-able
Compliance:							
- Administrative law	Individual complaint of violating rules	Grouped complaint of violating rules	Formal request for information	Formal warning or investigation	Fine < 10 M€	Fine > 10 M€ or binding regulations	Repail License to Operate
- Criminal law						Criminal law procedure	Criminal law sanction

FREQUENCY							
7 Very often More than 10 times a year	Low	Medium	High	Very High	Unaccept-able	Unaccept-able	Unaccept-able
6 Often More than once a year	Negligible	Low	Medium	High	Very High	Unaccept-able	Unaccept-able
5 Regular Once every 1-10 years	Negligible	Negligible	Low	Medium	High	Very High	Unaccept-able
4 Probable Once every 10-100 years	Negligible	Negligible	Negligible	Low	Medium	High	Very High
3 Possible Once every 100-1000 years	Negligible	Negligible	Negligible	Negligible	Low	Medium	High
2 Unlikely Once every 1000-10.000 years	Negligible	Negligible	Negligible	Negligible	Negligible	Low	Medium
1 Hardly possible Less than once every 10.000 years	Negligible	Negligible	Negligible	Negligible	Negligible	Negligible	Low

Abbreviations and definitions

ABP – Algemeen Burgerlijk Pensioenfonds
ABP, is the civil service pension fund for government, education and energy employees in the Netherlands.

AC – Alternating current
In alternating current (AC), the flow of electricity periodically reverses direction. By contrast direct current (DC), electricity only flows in one direction. AC is used to transport electricity over relatively shorter distances and DC for relatively longer distances.

ACER – Agency for the Cooperation of Energy Regulators
The European network organisation for energy regulators. It has a key role in the integration of European electricity and gas markets, providing a framework for cooperation at EU level and regulatory certainty.

ACM – Autoriteit Consument & Markt
The Netherlands Authority for Consumers and Markets protects the interests of consumers and businesses and specifically oversees the energy, telecommunication, transport and postal industries. This authority regulates the network operators in the electricity market and sets maximum transmission tariffs for the national grid operator's system services and for the connections to the grid. The ACM creates conditions for a well-functioning national and international wholesale market.

Algemene Rekenkamer – Dutch Court of Audit
The Dutch Court of Audit is an central government body that checks the government spend public funds efficiently and legitimately.

APX – APX Group
APX Group (APX) is an energy exchange operating the spot markets for electricity in the Netherlands, the United Kingdom, and Belgium.

BNetzA – Bundesnetzagentur für Elektrizität, Gas, Telekommunikation, Post und Eisenbahnen
The German regulatory authority, which maintains and promotes competition in so-called grid markets among other duties.

BritNed
The 260 km-long high-voltage direct current BritNed cable has a capacity of 1,000 MW and connects the Dutch and British electricity grids (commissioned in 2011).

CAO – Central Allocation Office
CAO is the central auction office for cross-border transmission capacity for Central and Eastern Europe. CAO facilitates the purchase and sale of transmission capacity by providing a single auction platform and point of contact. In September 2015 CASC.EU and CAO merged to create Joint Allocation Office.

CASC.EU
CASC.EU is the central auction office for cross-border transmission capacity for Central Western Europe and the borders of Italy, northern Switzerland and parts of Scandinavia. CASC.EU facilitates the purchase and sale of transmission capacity by providing a single auction platform and point of contact. In September 2015 CASC.EU and CAO merged to create Joint Allocation Office.

Capex – Capital expenditures
Capital expenditures (Capex) is the amount spent on acquiring or improving long-term assets. Its benefits are enjoyed over a long time period, not only in the current year. Capex is of a non-recurring nature and results in the acquisition of permanent assets.

Carbon footprint
The total amount of greenhouse gases produced to directly and indirectly support human activities, usually expressed in equivalent tons of carbon dioxide (CO_2).

CGU – Cash generating unit
A cash-generating unit is the smallest group of assets that independently generates cash flow and whose cash flow is largely independent of the cash flows generated by other assets.

CO_2 – Carbon dioxide
Carbon dioxide is a greenhouse gas formed by the burning of carbon-based fuels. Its concentration in the atmosphere is rapidly increasing, leading to global warming.

COBRA cable
A 275 km-long high-voltage direct current cable that is under construction to connect the Dutch and Danish electricity grids. It will have a capacity of 700 MW.

COP21
The 2015 United Nations Climate Change Conference. This edition of the annual Conference of Parties (COP) was held in Paris in December 2015.

COSO – Committee of Sponsoring Organisations of the Treadway Commission
COSO has established the common internal control model against which companies and organisations assess their control systems.

CP programme – Commercial paper programme
A commercial paper is a flexible short-term debt instrument that is issued directly to the market with different maturities and is offered continuously.

CSR – Corporate social responsibility
The Corporate social responsibility relates to the socially responsible business practices of a company balancing people, planet and profit.

DC – Direct current
In direct current (DC), the flow of electricity is only in one direction. In alternating current (AC), the electricity flows periodically reverses direction. DC is used to transport electricity over relatively longer distances and AC for relatively shorter distances.

DCI – Direct current interconnector
A direct current interconnector linking TenneT's grid to the grids of other TSOs.

DSO – Distribution system operators
A regional electricity distribution company, that is connected with end users, and is responsible for providing (1) power transmission services, by constructing and maintaining a robust high-voltage grid, (2) system services, by maintaining the balance between supply and demand of electricity 24 hours a day, and seven days a week and (3) facilitating a smoothly functioning, liquid and stable electricity market.

E-wet – Elektriciteitswet
The Dutch electricity law.

EnWG – Energiewirtschaftsgesetz
The German electricity law.

EBIT – Earnings before interest and tax
Profit for the period before income tax expense and interest payments are deducted.

EEG – Erneuerbare-Energien-Gesetz
German Renewable Energy Act, designed to govern the preferred supply of electricity from renewable sources into the grid with guaranteed, fixed minimum producer prices. It is intended to serve and protect the climate and is one of several statutory provisions aimed at reducing Germany's dependence on fossil fuels such as oil, natural gas or coal, and nuclear power.

EIB – European Investment Bank
The European Investment Bank is the bank of the European Union. It is the only bank owned by and representing the interests of the European Union Member States, providing financing for sustainable investment projects that contribute to furthering EU policy objectives.

EMTN – Euro Medium Term Note
A flexible medium-term debt instrument that is issued directly to the market with different maturities and is offered continuously rather than all at once like a bond issue.

EnLaG – Das Gesetz zum Ausbau von Energieleitungen
This is the German Power Grid Expansion Act draft legislation for the expansion of the German grid, which defines certain alternating current projects as underground cabling projects rather than overhead cabling

ENTSO-E – European Network of Transmission System Operators for Electricity
ENTSO-E is the organisation of transmission system operators at a European level, representing 41 TSOs from 34 countries. Its mission is to promote important aspects of energy policy, especially integrating renewable energy and the completion of an internal energy market.

EnWG – Energiewirtschaftsgesetz
German Energy Industry Act. In accordance with the EU Directive, the EnWG lays down objective and non-discriminating principles for the taking up of energy supply and the construction of power plants and power lines.

EPEX SPOT– European Power Exchange SE
The European Power Exchange SE is an exchange for power spot trading in Germany, France, Austria, Switzerland and Luxembourg. EPEX SPOT owns 100% of APX Group, which operates the power spot markets in Belgium, the Netherlands and the United Kingdom.

EU – European Union
The European Union (EU) is a political-economic union of 28 member states countries that are located in Europe

FFO – Funds from operations
Profit for the year plus depreciation, amortisation and impairments minus gain/loss on the disposal of assets.

FFO/net debt
Funds from operations divided by net debt, adjusted.

FTE – Full-time equivalent
Full-time equivalent is a unit that measures work by converting work load hours into the number of people required to complete that task.

GRI – Global Reporting Initiative
The Global Reporting Initiative is a non-profit organisation that promotes sustainability and produces global standards for sustainability reporting.

Gross interest-bearing debt
Non-current borrowings plus its current portion plus bank overdrafts.

GW – Gigawatt
A unit of power equal to one billion watts.

GWh – Gigawatt hour
A unit of energy equivalent to delivering one billion watts of power for a period of one hour.

Helaba – Helaba Pension Trust e.V.
Helaba Pension Trust e.V. is a subsidiary of German bank Landesbank Hessen-Thüringen and holds a part of the assets of the German pension plan.

HGRT – Holding des Gestionnaires de Réseaux de Transport d'Électricité S.A.S.
Holding des Gestionnaires de Réseaux de Transport d'Électricité S.A.S. is a holding company of EPEX SPOT power exchange. Its shareholders are TenneT, Belgian TSO Elia and French TSO RTE.

Horizon 2020
Horizon 2020 is a European Union EU Research and Innovation programme ever with nearly € 80 billion of funding available over seven years (to 2020) as well additional private investment. Its aim is to make Europe more competitive by promoting innovation and making it easier to bring ideas to market.

HTSC – High temperature superconducting cables
High-temperature superconducting cables are made out of materials that can conduct electricity at unusually high temperatures than usual temperatures without dissipating energy.

HVDC – High-voltage direct current
A high-voltage, direct current system can transmit bulk electricity over longer distances than an alternating current system and with lower grid losses. As such, HVDC is used for connecting offshore wind farms to the onshore grid.

IFRS – International Financial Reporting Standards
The internationally prescribed and recognised reporting guidelines.

ICF – Internal Control Framework
Framework for the set of internal controls, to provide reasonable assurance on the reliability of our internal and external reporting.

JAO – Joint Allocation Office
The merger of regional auction offices CASC.EU and CAO in June 2015 created the Joint Allocation Office for cross-border electricity transmission capacity, JAO is a collaboration of 20 TSOs from 17 European countries. It significantly increases the efficiency and transparency of the European electricity market, creating a single point of contact for market participants with harmonised auction rules that simplify trading and promises substantial savings to TSOs in the coming years.

KfW – Kreditanstalt für Wiederaufbau
KfW is the Reconstruction Credit Institute German government-owned development bank.

kV – kilovolt
A unit of electric voltage equal to 1,000 volts.

KWK-G – Kraft-Wärme-Kopplungs-Gesetz
The German Combined Heat and Power Act.

LOR – Letter of Representation
A Letter of Representation is signed by the management of the Group and/or performance unit to attest to the accuracy of the financial statements.

LTIF – Lost time injury frequency
The lost-time injury frequency is the number of lost-time injuries per million hours worked. A lost time injury is an injury that results in at least one day's absence from work.

MIGRATE – Massive InteGRATion of power Electronic devices
The MIGRATE research programme seeks to develop solutions to technical issues.

MW – Megawatt
A unit of power equal to one million watts.

MWh – Megawatt hour
A unit of energy equivalent to delivering one million watts of power for a period of one hour.

Natuur & Milieu – Nature & Environment
Natuur & Milieu is the Dutch Society for Nature & Environment, an independent Dutch environmental organisation committed to creating a healthy natural environment.

Net interest-bearing debt, adjusted
Gross interest-bearing debt plus/minus EEG (German Renewable Energy Act) payables/receivables minus cash and cash equivalents at free disposal.

NGO – Non-governmental organisation
A non-governmental organisation is a voluntary citizens' group that is neither a government initiative nor a conventional for-profit business.

NOKA – DC Nordseekabel GmbH & Co. KG
NOKA is jointly owned by TenneT and German development bank KfW and is responsible for financing and building the German part of the NordLink cable.

NordLink
TenneT is jointly developing the NordLink interconnector with its project partners, the Norwegian TSO Statnett and German development bank KfW. This subsea cable with an overall transmission capacity of 1,400 MW will run between Tonstad the south of Norway and Wilster in northern German.

NWE – North West Europe
A region in Europe that includes Netherlands, Germany, Belgium, Denmark, United Kingdom, France, Norway, Sweden, Finland and Luxembourg

Oekom
Oekom research AG is a sustainability ratings agency and external assessor for benchmarking CSR reports.

Opex – Operational expenditure
Operating expenditure is the expenses that a company incurs as a result of its normal business operations.

OTC – Open Tower Company B.V.
The Open Tower Company is a holding company for the assets and activities of the joint venture between Rabo Bouwfonds Communication Infrastructure Fund C.V. (CIF) and TenneT subsidiary NOVEC B.V. The activities of OTC are held in three asset companies, being Colonne B.V., MRNV B.V. and DutchFort B.V.

OWF –Offshore wind farm operators
Offshore wind farms are constructed in bodies of water to generate electricity from wind.

PCI – Project of Common Interest
To help integrate the European energy market, the European Commission has drawn up a list of 248 projects of common interest (PCIs). These projects may benefit from accelerated licensing procedures, improved regulatory conditions, and access to financial support totalling EUR 5.35 billion from the Connecting Europe Facility (CEF) between 2014 and 2020.

PROMOTioN – Progress on Meshed HVDC Offshore Transmission Networks
A leading four-year European research programme that will result in an offshore grid development plan for 2020 and beyond.

RCF – Revolving credit facility
A line of credit where TenneT pays a commitment fee and can then use the funds as and when they are needed.

RES – Renewable energy sources
All sources of renewable energy including sunlight, wind, tides, waves, biomass and geothermal heat.

ROIC – Return on invested capital
Earnings before interest and tax expressed as a percentage of the average invested capital during the year based on 'underlying' information.

SF_6 – Sulphur hexafluoride
An inorganic, colourless, odourless and non-flammable greenhouse gas that is used in the electricity industry to insulate high-voltage circuit breakers, switchgear and other electrical equipment.

Statnett
Statnett is the Norwegian TSO transmission system operator that TenneT and German development bank KfW are partnering with to build the NordLink cable between Germany and Norway.

Suedlink
A direct current connection to transport electricity from the north of Germany where it is generated to the south

Transparantie Benchmark (NL)
Dutch CSR benchmark by the Dutch Ministry of Economics Affairs that annually assesses Dutch companies on the content and quality of their corporate social responsibility reports.

TSO – Transmission system operator
A transmission system operator transports electricity on a national or regional level from producers to distributers. A TSO is responsible for providing (1) power transmission services, by constructing and maintaining a robust high-voltage grid, (2) system services, by maintaining the balance between supply and demand of electricity 24 hours a day, and seven days a week and (3) facilitating a smoothly functioning, liquid and stable electricity market.

VKE – Versorgungskasse Energie VVaG
Versorgugnskasse Energie VVaG is pension fund for energy mutuals and a subsidiary of E.ON SE. It holds a part of the assets of the German pension plan.

Wintrack
A innovative type high-voltage pylon developed by TenneT to replace the existing lattice towers in the Netherlands. Wintrack pylons significantly reduces the so-called 'electromagnetic field zone'.

TenneT Holding B.V.
P.O. Box 718, 6800 AS Arnhem, the Netherlands
W: www.tennet.eu

Colophon
TenneT Holding B.V.

Visiting address
Utrechtseweg 310, 6812 AR, Arnhem, the Netherlands
T: +31 (0)26 – 37 31 111

Corporate Communications Department
T: +31 (0)26 – 37 32 600
E: communication@tennet.eu

Copy
Stampa Communications, Amsterdam

Concept & Design
DartGroup, Amsterdam

We look forward to receiving your feedback on this report,
please send an email to communication@tennet.eu

Disclaimer

`We´, `TenneT´, `TenneT Holding´, `the Group´, `the company´ or similar expressions are used in this report as a synonym for TenneT Holding B.V. and its subsidiaries.

Parts of this report contain forward-looking information. These parts may include unqualified statements on future operating results, government measures, the impact of other regulatory measures on the activities of TenneT as a whole, TenneT´s shares and those of its subsidiaries and joint-ventures in existing and new markets, industrial and macro-economic trends and TenneT´s performance in these. Such statements are preceded or followed by or contain words such as `believes´, `expects´, `anticipates´ or similar expressions. These forward-looking statements are based on current assumptions concerning future activities and are subject to known and unknown factors, and other uncertainties, many of which are beyond TenneT´s control, so that future actual results may differ significantly from these statements.

All financial information in this integrated annual report is reported in millions of euro, unless stated otherwise. As a result, small rounding differences may occur.

TenneT is a leading European electricity transmission system operator (TSO) with its main activities in the Netherlands and Germany. With over 22,000 kilometres of high-voltage lines we ensure a secure supply of electricity to 41 million end-users. We employ nearly 3,000 people, have a turnover of EUR 3.3 billion and our assets total EUR 15.4 billion. TenneT is one of Europe's major investors in national and cross-border grid connections on land and at sea, bringing together the Northwest European energy markets and enabling the energy transition. We take every effort to meet the needs of society by being responsible, engaged and connected. **Taking power further.**

TenneT Holding B.V.
Utrechtseweg 310, 6812 AR, Arnhem, the Netherlands
P.O. Box 718, 6800 AS Arnhem, the Netherlands

Telephone: +31 (0)26 – 37 31 111
E-mail: communication@tennet.eu
Website: www.tennet.eu

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