FINANCIAL statements

Consolidated financial statements

Consolidated statement of income

For the year ended 31 December (EUR million)

	Notes	2017		2016	
Revenue	3.1		**3,976**		**2,843**
Grid expenses	3.2.1	-2,111		-1,470	
Personnel expenses	3.2.2	-191		-183	
Depreciation and amortisation of assets	4.1, 5.1	-629		-596	
Other operating expenses	3.2.3	-205		-223	
Other (gains)/losses		-9		-10	
Total operating expenses			**-3,145**		**-2,482**
Share in profit of joint ventures and associates	5.3		69		78
Operating profit			**900**		**439**
Finance income		9		7	
Finance expenses	3.3	-179		-166	
Finance result			**-170**		**-159**
Profit before income tax			**730**		**280**
Income tax expense	3.4		-177		-38
Profit for the year			**553**		**242**
Profit attributable to:					
Equity holders of ordinary shares	6.2.1	442		134	
Hybrid securities	6.2.1	35		33	
Owners of the company			**477**		**167**
Non-controlling interests	6.2.2		76		75
Profit for the year			**553**		**242**

Earnings per share attributable to the equity holders of ordinary shares

For the year ended 31 December (EUR per share)

	Notes	2017	2016
Basic and diluted earnings per share	3.5	2,255	710

Consolidated statement of comprehensive income

For the year ended 31 December (EUR million)

		Attributable to equity holders of the company						Non-controlling interest	Total equity
		Hedging reserve	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		6.2.2	
2016									
Other comprehensive income to be reclassified to profit or loss in subsequent years:									
Amortisation of hedges	6.2.1	-	-	-	-	-	-	-	-
Taxation	3.4	-	-	-	-	-	-	-	-
		-	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Items not to be reclassified to profit or loss in subsequent years:									
Re-measurement of defined benefit pensions	7.1.1	-	-40	-	-40	-	-40	-	-40
Taxation	3.4	-	12	-	12	-	12	-	12
		-	**-28**	**-**	**-28**	**-**	**-28**	**-**	**-28**
Total other comprehensive income 2016		**-**	**-28**	**-**	**-28**	**-**	**-28**	**-**	**-28**
Profit for the year		-	-	134	134	33	167	75	242
Total comprehensive income 2016		**-**	**-28**	**134**	**106**	**33**	**139**	**75**	**214**
2017									
Other comprehensive income to be reclassified to profit or loss in subsequent years:									
Amortisation of hedges	6.2.1	-1	-	-	-1	-	-1	-	-1
Taxation	3.4	-	-	-	-	-	-	-	-
		-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	-	3	-	3	-	3	-	3
Taxation	3.4	-	-1	-	-1	-	-1	-	-1
		-	**2**	**-**	**2**	**-**	**2**	**-**	**2**
Total other comprehensive income 2017		**-1**	**2**	**-**	**1**	**-**	**1**	**-**	**1**
Profit for the year		-	-	442	442	35	477	76	553
Total comprehensive income 2017		**-1**	**2**	**442**	**443**	**35**	**478**	**76**	**554**

Consolidated statement of financial position

For the year ended 31 December (EUR million)

Assets	Notes	2017	2016
Non-current assets			
Tangible fixed assets	4.1	14,530	13,321
Intangible assets	5.1	98	109
Investments in joint ventures	5.3.1	413	328
Investments in associates	5.3.2	37	34
Deferred tax assets	3.4	5	3
Other financial assets	5.4	311	655
Total non-current assets		**15,394**	**14,450**
Current assets			
Inventories	5.8	78	74
Account- and other receivables	5.5	2,434	1,875
Income tax receivable	3.4	2	42
Cash and cash equivalents	6.4	1,329	1,208
Total current assets		**3,843**	**3,199**
Total assets		**19,237**	**17,649**

Consolidated statement of financial position

For the year ended 31 December (EUR million)

Equity and liabilities	Notes	2017	2016
Equity			
Equity attributable to ordinary shares	6.2.1	3,713	3,410
Hybrid securities	6.2.1	1,018	520
Equity attributable to owners of the company		**4,731**	**3,930**
Non-controlling interests	6.2.2	857	971
Total equity		**5,588**	**4,901**
Non-current liabilities			
Borrowings	6.3	6,786	6,335
Deferred income	4.2	283	279
Deferred tax liability	3.4	222	252
Provisions	5.7	697	642
Net employee defined benefit liabilities	7.1.1	186	179
Other liabilities		2	-
Total non-current liabilities		**8,176**	**7,687**
Current liabilities			
Borrowings	6.3	917	1,127
Deferred income	4.2	3	5
Income tax payable	3.4	7	14
Provisions	5.7	92	141
Other financial liabilities		61	66
Account- and other payables	5.6	4,354	3,666
Bank overdrafts	6.4	39	42
Total current liabilities		**5,473**	**5,061**
Total equity and liabilities		**19,237**	**17,649**

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	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	
At 1 January 2016		**100**	**600**	**5**	**2,012**	**-5**	**2,712**	**520**	**3,232**	**956**	**4,188**
Net income		-	-	-	-	134	134	33	167	75	242
Total other comprehensive income		-	-	-	-28	-	-28	-	-28	-	-28
Total comprehensive income		**-**	**-**	**-**	**-28**	**134**	**106**	**33**	**139**	**75**	**214**
Dividends paid	6.2.1	-	-	-	-196	-	-196	-	-196	-37	-233
Distribution on hybrid securities	6.2.1	-	-	-	-	-	-	-33	-33	-	-33
Tax on distribution on hybrid securities	6.2.1	-	-	-	-	8	8	-	8	-	8
Capital contribution	6.2.1 6.2.2	-	780	-	-	-	780	-	780	6	786
Capital repayment	6.2.2	-	-	-	-	-	-	-	-	-29	-29
Appropriation remaining prior year result		-	-	-	3	-3	-	-	-	-	-
At 31 December 2016		**100**	**1,380**	**5**	**1,791**	**134**	**3,410**	**520**	**3,930**	**971**	**4,901**
Net income		-	-	-	-	442	442	35	477	76	553
Total other comprehensive income		-	-	-1	2	-	1	-	1	-	1
Total comprehensive income		**-**	**-**	**-1**	**2**	**442**	**443**	**35**	**478**	**76**	**554**
Dividends paid	6.2.1	-	-	-	-	-146	-146	-	-146	-43	-189
Capital contribution	6.2.1	-	-	-	-	-	-	-	-	15	15
Capital repayment	6.2.1	-	-	-	-	-	-	-500	-500	-162	-662
Issue of hybrid securities	6.2.1	-	-	-	-3	-	-3	1,000	997	-	997
Distribution on hybrid securities	6.2.1	-	-	-	-	-	-	-37	-37	-	-37
Tax on distribution on hybrid securities	6.2.1	-	-	-	-	9	9	-	9	-	9
Appropriation remaining prior year result		-	-	-	-3	3	-	-	-	-	-
At 31 December 2017		**100**	**1,380**	**4**	**1,787**	**442**	**3,713**	**1,018**	**4,731**	**857**	**5,588**

Consolidated statement of cash flows

For the year ended 31 December (EUR million)

	Notes	2017		2016	
Operational activities					
Operating profit			**900**		**439**
Non-cash adjustments to reconcile profit to net cash flows:					
Depreciation, amortisation and impairment of assets	4.1, 5.1	629		596	
Result on disposal of assets	4.1	-7		-	
Gain on acquistion of subsidiary	5.2	-3		-	
Share in profit of joint ventures and associates	5.3	-72		-78	
Dividends received from joint ventures and associates	5.3	54		88	
Increase/(decrease) in deferred income	4.2	2		10	
Movements in provisions and other (financial) liabilities and assets		-66		28	
			537		**644**
Working capital adjustments excluding EEG working capital:					
(Increase)/decrease in account- and other receivables	5.5	-274		5	
(Increase)/decrease in inventories		-4		-41	
Increase/(decrease) in account- and other payables	5.6	379		-214	
Increase/(decrease) in current financial liabilities		7		24	
			108		**-226**
Income tax paid (net)			-181		-211
Net cash flows from operating activities excluding EEG working capital			**1,364**		**646**
EEG working capital adjustments:					
(Increase)/decrease in EEG receivables	5.5	-94		-86	
Increase/(decrease) in EEG payables	5.6	325		-9	
			231		**-95**
Net cash flows from operating activities			**1,595**		**551**
Investing activities					
Purchase of tangible and intangible fixed assets	4.1, 5.1	-1,762		-1,796	
Proceeds from sale of tangible and intangible fixed assets	4.1, 5.1	-		3	
Acquisition of a subsidiary, net of cash acquired	5.2	-5		-	
Capital contribution to joint ventures and associates	5.3	-72		-37	
Proceeds from repayment of financial assets		-		-	
Interest received		2		-	
Net cash flows used in investing activities			**-1,837**		**-1,830**
Financing activities					
Net financing					
Proceeds from borrowings	6.3	1,370		3,213	
Repayment of borrowings	6.3	-1,127		-395	
			243		**2,818**
Other financing activities					
Interest paid		-151		-119	
Dividends paid to ordinary shareholders of the company	6.2.1	-146		-196	
Proceeds from capital contributions	6.2.1	150		-	
Repayment of hybrid securities	6.2.1	-500		-	

Continuation >

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Proceeds from issue of hybrid securities	6.2.1	997		-	
Distribution on hybrid securities	6.2.1	-37		-33	
Dividends paid and capital repayments to non-controlling interests	6.2.2	-205		-66	
Proceeds from capital contributions by non-controlling interests	6.2.2	15		6	
			123		**-408**
Net cash flows from financing activities			**366**		**2,410**
Net change in cash and cash equivalents			**124**		**1,131**
Cash and cash equivalents at 31 December	6.4	1,290		1,166	
Cash and cash equivalents at 1 January	6.4	1,166		35	
			124		**1,131**

Notes to the consolidated financial statements

We are continuously developing our financial reporting to make it more relevant and understandable to our stakeholders. These financial statements focus therefore on the key (financial) topics for 2017. Like prior year the notes to the consolidated financial statements have been grouped into seven sections relating to key topics and figures from a business perspective. Accounting policies are indicated with ⓘ, while key assumptions and estimates are identified by using in front of the header.

1. Basis for reporting

Accounting policies describe our approach to recognising and measuring transactions and balance sheet items in the year. Accounting policies including new EU endorsed accounting standards, amendments and interpretations, relating to the consolidated financial statements as a whole are described below. This section also provides general guidance regarding assumptions, estimates and judgement used in the preparation of the consolidated financial statements. 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 presented in these financial statements. We consider an item material if, in our view, it is likely to have an impact on the economic decisions of the users of these financial statements.

1.1 General

We (TenneT Holding B.V. and its subsidiaries) are a leading electricity TSO with activities in the Netherlands and in Germany. Our activities in the Netherlands are carried out by TenneT TSO B.V. and its subsidiaries. Our activities in Germany are performed by TenneT GmbH & Co. KG and its subsidiaries.

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

These consolidated financial statements for the year ended 31 December 2017 were prepared and authorised by our Executive Board for issue in accordance with a resolution of the Supervisory Board on 20 February 2018.

1.2 Basis for preparation

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

These consolidated financial statements have been prepared on a going concern basis. The going concern basis presumes that the Group has adequate resources to remain in operation, and that the Executive Board intend it to do so, for at least one year from the date the financial statements are signed.

These consolidated financial statements are prepared on a historical cost basis, except for derivative financial instruments which have been measured at fair value. They 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

TenneT applied for the first time certain amendments to the standards, which are effective for annual periods beginning on or after 1 January 2017. TenneT has not earlier than required adopted any standards, interpretations or amendments that have been issued but are not yet effective. The nature and the impact of each amendment is described below:

- Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative. The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). TenneT has provided the information for both the current and the comparative period in note 6.3 borrowings.

- Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses. The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of deductible temporary difference related to unrealised losses. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. TenneT has applied the amendments retrospectively. However, their application has no effect on the Groups financial position and performance as we have no deductible temporary differences or assets that are in the scope of the amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses.
- Annual Improvements Cycle - 2014-2016, these amendments did not affect TenneT's financial statements.

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

A limited number of new standards, amendments to standards and interpretations, and annual improvement cycles were issued but are not effective for the financial year beginning 1 January 2017.
Below we describe the potential impact of IFRS 9, IFRS 15 and IFRS 16, which could have a material impact on our financial statements. Therefore they are further described. Other changes to standards which we expect to have no material impact on our financial statements are not further described.

- IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. IFRS 16 is effective for annual periods beginning on or after 1 January 2019 as of which date TenneT will adopt the standard. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach, TenneT has decided to use the modified retrospective approach to account for the lease contracts. The standard's transition provisions permit certain reliefs. In 2018, TenneT will continue to assess the potential effect of IFRS 16 on its consolidated financial statements. For further details on our off-balance lease commitments at year-end 2017, we refer to note 4.3.4.
- 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. The effective date of this new standard is 1 January 2018. Based on an assessment encompassing interviews within several internal departments and review of the existing contracts, the impact of this new standard is limited. We will adopt the new standard on the required effective date.
- In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018. IFRS 9 requires us to record expected credit losses on all our debt securities, loans and trade receivables, either on a 12-month or lifetime basis. TenneT will apply the simplified approach and record lifetime expected losses on all trade receivables. TenneT has determined that, due to the unsecured nature of its loans and receivables, the loss allowance will increase by EUR 1 million.

In summary, the impact of IFRS 9 adoption is as follows:
Impact on equity (decrease) as of 1 January 2018:

(EUR million)	notes	1 January 2018
Assets		
Trade and other receivables	5.5	288
Total assets		**288**
Net impact on equity, including tax		**1**
Retained earnings	6.2.1	1

1.3 Basis for consolidation

The consolidated financial statements incorporate the financial statements of TenneT Holding B.V. and its subsidiaries as at 31 December 2017. A list of the legal entities included in the consolidation is included in note 7.4.
Subsidiaries are consolidated from the date of acquisition, constituting the date on which control is obtained, and continue to be consolidated until the date when such control ceases. The financial statements of 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 we cease to have control of a subsidiary, we derecognise the subsidiary's assets (including goodwill) and liabilities, with any non-controlling interest and the cumulative translation differences recorded in equity. Furthermore, the fair value of the consideration received, the fair value of any investment retained and any surplus or deficit in profit or loss are recognised. 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 us 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. Actual results could differ from these estimates.
Such estimates are assessed continuously on the basis of previous results and experience, consultations with experts, trends, prognoses and other methods which we deem appropriate in each individual case. Significant items containing estimates and assumptions are as follows:

Item	Note	Estimate/assumptions
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, discount rate 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
Net employee benefit obligation	7.1	Financial, actuarial and demographic assumptions

1.5 Foreign currency

These consolidated financial statements are presented in euros, which is also the parent company's and all subsidiaries functional currency.

2. Segment information

This section sets out the financial performance for the year in accordance with the way we manage our business (operating segments). We measure and assess our performance based on underlying financial information, which is explained further below.

We generate the majority of our revenue from our regulated operating segments in the Netherlands and Germany. Therefore close collaboration with our respective regulators to obtain agreements that balance the risks we face with the opportunity to deliver reasonable returns for our investors is key to us. Our involvement in certain limited non-regulated activities are closely related and ancillary to our core tasks.

2.1 Segment analysis

Our Executive Board is the chief operating decision-making body of the company (as defined by IFRS 8 'Operating segments'). It monitors periodically the performance of the operating segments separately for the purpose of performance management and making decisions about resource allocation. The segment performance is based on underlying financial information, where EBIT and investments are the key metrics. The definition of EBIT equals operating profit. Performance of non-regulated activities is evaluated based on EBIT.

Underlying financial information is based on the principle of recognising regulatory assets and liabilities for all of our regulated activities. This implies that amounts resulting from past events and which are allowed to be received or required to be paid back in future tariffs are recorded as an asset or liability, respectively (see note 2.2 for further reference). We believe that the presentation of underlying financial information leads to a sound, consistent and transparent financial insight into past and future business performance.

Our operating segments consist of (i) TSO Netherlands, (ii) TSO Germany and (iii) non-regulated companies.

For management information, purposes the performance of our regulated activities in the Netherlands and in Germany are considered separately into two segments (corresponding to the geographical distribution). This segmentation, based on separately applicable regulatory frameworks, is the key determinant for financial management of the business and for decision-making on budgets, allocation of resources and financing. In addition, and in conformity with previous years, non-regulated activities are considered separately.

Financing activities (including finance income and expenses) are managed on a Group basis and amounts related thereto are not allocated to the segments. Transfer prices between the Netherlands and Germany are at arm's length in a manner similar to transactions with third parties. These intercompany transactions are eliminated in the consolidation. There is no material concentration of customers in any of the operating segments.

(EUR million)	2017 Rev-enue	2017 EBIT	2017 Invest-ments	2017 Assets	2017 Liabili-ties	2016 Revenue	2016 EBIT	2016 Invest-ments	2016 Assets	2016 Liabilities
TSO Netherlands	838	190	736	5,781	3,323	747	146	575	5,529	3,193
TSO Germany	3,122	651	1,032	15,519	10,669	2,477	617	1,273	13,993	9,381
Non-regulated activities	35	59	2	1,026	137	29	70	-	1,309	147
	3,995	**900**	**1,770**	**22,326**	**14,129**	**3,253**	**833**	**1,848**	**20,831**	**12,721**
Eliminations and adjustments	-47	-3	-	-1,914	814	-26	1	-	-1,857	1,461
Consolidated underlying information	**3,948**	**897**	**1,770**	**20,412**	**14,943**	**3,227**	**834**	**1,848**	**18,974**	**14,182**

For an analysis of the underlying results see the 'Financial' section of 'Our performance in 2017' section of the integrated annual report.

2.2 ⓘ Accounting policies applied for underlying financial information

Underlying financial information matches regulatory revenues and expenses in a corresponding reporting period, and fully defers any income until used for investments or tariff reductions.

IFRS + **Regulatory Deferral Accounts** = **Underlying**

Matching is achieved by recognising regulatory deferral accounts. The key requirement for the recognition of regulatory deferral accounts 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 tariffs. 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.

Furthermore, until 2015 certain investments were financed via auction receipts resulting from auctioning available capacity on cross-border interconnections (see note 2.3). The different accounting treatment of the regulatory deferral accounts also results in a different fair value of assets.

2.3 Regulatory deferral accounts: reconciliation to IFRS figures

The difference between the underlying financial information - as presented in the segment information and board report - and IFRS reported figures is related to the recognition of regulated assets and liabilities, and auctions receipts, and the measurement of tangible fixed assets. In our IFRS financial statements, these are recognised as revenue when realised. These differences also result in different deferred tax balances in underlying financial information compared to IFRS reported figures. No other differences between underlying financial information and IFRS exist.

Underlying financial information can be reconciled to reported IFRS figures as follows:

2017 (EUR million)	EBIT	Assets	Liabilities	Recovery/ reversal period (years)
Consolidated underlying information	**897**	**20,412**	**14,943**	
To be settled in tariffs	-116	-848	-92	0 - 5
Auction receipts	80	-	-910	0 - 30
Investment contributions	-10	-	-259	0 - 31
Maintenance of the energy balance	27	-	-35	0 - 1
Difference in tangible fixed assets	22	-322	-	0 - 31
Effect on deferred tax balances	-	-5	2	0 - 31
Consolidated IFRS financial statements	**900**	**19,237**	**13,649**	

2016 (EUR million)	EBIT	Assets	Liabilities	Recovery/ reversal period (years)
Consolidated underlying information	**834**	**18,974**	**14,182**	
To be settled in tariffs	-504	-979	-92	0 - 5
Auction receipts	77	-	-1,046	0 - 30
Investment contributions	-10	-	-269	0 - 32
Maintenance of the energy balance	19	-	-33	0 - 1
Difference in tangible fixed assets	23	-345	-	0 - 32
Effect on deferred tax balances	-	-1	6	0 - 32
Consolidated IFRS financial statements	**439**	**17,649**	**12,748**	

As the adjustments for reconciling consolidated underlying revenue to consolidated IFRS revenue are the same for the reconciliation of EBIT, no further information is shown in this respect 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 as assets and liabilities, respectively, in the statement of financial position under ‘to be settled in tariffs’. Compared to 2016, the decrease is mainly related to the compensation of grid related expenses. Due to regulatory changes, this compensation reflects 2015 expenses over 2017 (i.e. a two-year delay). From 2017 onwards, feed-in management will be compensated for in the year of occurrence.

Auction receipts & investment contributions

Auction receipts result from auctioning the available transmission capacity on cross-border interconnections. These receipts are not at our free disposal. In accordance with European law, auction receipts are to be used to invest in additional cross-border interconnections or to be refunded through tariff reductions. In the Netherlands, we have agreed with our regulator, (Autoriteit Consumenten Markt) the ACM to fully utilise auction receipts to reduce future tariffs. The current outstanding balance of auction receipts will be refunded via the tariffs over the coming years. In Germany, the use of auction receipts for investments is effectively achieved by reducing tariffs over a rolling 30-year period.

Investments financed by using auction receipts are classified as investment contributions and are reported under ‘liabilities’. A periodic amount equal to the depreciation charges, plus a portion of the operating expenses, is released to the statement of income.

Maintenance of the energy balance

As system manager of the high-voltage grid in the Netherlands, we receive funds from performing certain statutory duties, such as the maintenance of the energy balance. The proceeds from these activities (i.e., imbalance settlements) may only be used after approval by the ACM. Imbalance settlements collected during the year are to offset in transmission tariffs in the subsequent year. Consequently, these amounts are recorded as a liability in the underlying financial information.

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 recoverable amount of the assets resulting from acquisitions and used for impairment analysis.

3. Results for the year

This section comprises notes related to the revenue, operating expenses and results for the year as determined under IFRS. Also our taxation policies, including our tax strategy, accounting policy, and an analysis of the income tax for the year and its related deferred tax assets and liabilities at year-end are included in this section.

3.1 Revenue

(EUR million)	2017	2016
Connection and transmission services	2,905	1,870
Maintenance of energy balance	107	71
Operation of energy exchanges	136	104
Offshore balancing	737	693
Other	91	105
Total	**3,976**	**2,843**

3.1.1 Connection and transmission services

Materially, all revenue from connection and transmission is regulated by the ACM in the Netherlands and by the Bundesnetzagentur (BNetzA) in Germany. Revenue from connection and transmission services includes revenue from services provided to regional grid operators and industrial clients (such as resolution of transmission restrictions, congestion management and reactive power management). Revenues increased significantly in 2017. This was mainly due to revenue received as compensation for German feed-in management expenses. Due to regulatory changes, this compensation reflects 2015 expenses over 2017 (i.e. a two-year delay). From 2017 onwards, feed-in management will be compensated for in the year of occurrence. Consequently, the 2017 revenue contains the compensation for two years (i.e. 2015 and 2017).

3.1.2 Maintenance of the energy balance

We are responsible for ensuring that the balance between the electricity supply and demand is stable at all times (i.e. alternating current frequency in the power grid must be of 50 Hz). If this balance is significantly disrupted, it may result in a power outage or even a black-out, depending on the length and severity of the imbalance. To ensure this balance, we contract and deploy (among others) reserve and emergency capacity to compensate 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 in subsequent years.

3.1.3 Operation of energy exchanges

This amount includes revenues resulting from the auctioning of cross-border interconnection capacity.

3.1.4 Offshore balancing

In accordance with German law, approximately 70% of our offshore-related costs are charged through to the other three German 'Transmission Service Operators' (TSOs) (so called 'horizontal balancing'). The revenue arising from this is classified as 'revenue from offshore balancing'.

3.1.5 ⓘ Accounting policy with respect to revenue

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 year-end. This assessment is based on expected consumption and weather patterns.
If revenue received or receivable exceeds the maximum annual amount as determined by the regulator, ACM or BNetzA, an adjustment will be made to future tariffs to reflect this over-recovery under IFRS. No liability is recognised since this adjustment relates to the provision of future services. Similarly, no asset is recognised when a regulator permits increases to be made to future tariffs in respect of under-recovery.

3.2 Operating expenses

3.2.1 Grid expenses

(EUR million)	2017	2016
System services	1,368	835
Connection and transmission services	285	256
Maintenance of energy balance	79	52
Maintaining and operating transmission grids	378	330
Other	1	-3
Total	**2,111**	**1,470**

System services expenses comprise mainly of the expenses for measures taken to restore imbalances of the electricity grid and for grid losses. Compared to 2016, significantly more redispatch measures were taken in Germany in 2017 mainly due to low temperatures and an energy emergency demand in France in the first quarter of 2017. A number of estimation uncertainties such as feed-in volumes, weather conditions and electricity prices affect the calculation of the grid expenses and related accrual (see note 5.6.3).

3.2.2 Personnel expenses

(EUR million)	2017	2016
Salaries	240	227
Social security contributions	33	30
Pension charges defined benefit plans	11	10
Pension charges other plans	15	12
Other personnel expenses	18	16
Capitalised costs for tangible fixed assets	-126	-112
Total	**191**	**183**

Average workforce in FTEs (internal employees only)	3,061	2,954
Average workforce in FTEs employed in the Netherlands	1,304	1,295

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
2017	**125**	**46**	**171**
2016	130	45	175

Executive Board (EUR thousand)	Fixed	Variable	Pension cost	Total
2017	**1,802**	**326**	**478**	**2,606**
2016	1,796	254	445	2,495

The aggregate Executive Board remuneration comprises of remuneration paid to statutory directors of EUR 1,915 thousand (2016: EUR 1,848 thousand) and remuneration paid to non-statutory directors of EUR 691 thousand (2016: EUR 641 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.

3.2.3 Other operating expenses

(EUR million)	2017	2016
Accommodation and office expenses	76	73
Consultancy expenses	24	24
Hiring of temporary personnel	46	47
Travel and living expenses	14	13
Other expenses	45	66
Total	**205**	**223**

Other expenses in 2017 included a partial release of the provision for compensation payable to offshore wind farm (OWF) operators in respect of possible interruptions and or delays in offshore high-voltage connections. For further details see note 5.7.3. During 2017 classification of expenses has been reassessed and as a result the 2016 comparative figures have been adjusted in order to conform to the current year's presentation. For the 2016 figures EUR 41 million of expenses have been reclassified from grid expenses to other operating expenses in order to better reflect the nature of these costs.

The total fees for EY network firms (including Ernst & Young Accountants LLP) were as follows:

(EUR thousand)	2017	2016
Audit of the financial statements		
Ernst & Young Accountants LLP	665	524
Other Ernst & Young firms	662	762
Total audit of the financial statements	**1,327**	**1,286**
Other assurance services		
Ernst & Young Accountants LLP	136	207
Other Ernst & Young firms	120	153
Total other assurance services	**256**	**360**
Total assurance services	**1,583**	**1,646**
Tax consultancy (other Ernst & Young firms)	27	105
Other services (other Ernst & Young firms)	24	46
Total other services	**51**	**151**
Total EY network fees	**1,634**	**1,797**

3.3 Finance expenses

(EUR million)	2017	2016
Interest on borrowings and credit facilities	154	135
Capitalised interest on assets under construction	-8	-10
Interest on provisions	19	20
Interest on defined benefit pensions	3	3
Other finance expenses	11	18
Total	**179**	**166**

3.4 Income tax

We strive to comply with all applicable tax legislation in a socially responsible manner, maintaining the highest levels of transparency, quality and integrity. Management responsibility and oversight of our tax strategy lies with our 'Chief Financial Officer' (CFO), our Senior Manager Financial Control and our Corporate Tax Manager who monitor our tax activities and report to the Executive Board and the Audit, Risk and Compliance Committee.
Our tax strategy is fully consistent with our corporate strategy. Building a transparent relationship with tax authorities based on mutual trust is an integral part of this strategy. We have built and are continuously improving on a tax control framework to be 'in control' of tax risks and to allow the company to demonstrate to all its stakeholders, including the tax authorities, that the company fully complies with all applicable laws and regulations.

Income tax is payable in the Netherlands, Germany and Belgium. In the Netherlands, we entered into a so called 'horizontal monitoring agreement' with the Dutch tax authorities. 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 by the Dutch tax authorities. All corporate income tax returns in the Netherlands have been filed up to and including 2015. Tax paid in the Netherlands in 2017 amounted to EUR 68 million.

In Germany, corporate and trade tax returns for all German entities have been filed up to and including fiscal year 2015. The German tax authorities finalised a tax audit covering the fiscal years 2008 to 2012 and relating to all German entities. The effects hereof are included in the tax position below. In 2017 the German tax authorities announced a new tax audit covering the fiscal years 2013 to 2016. In 2017, we paid EUR 113 million of corporate income tax in Germany.

The key components of income tax expense are:

Consolidated income statement (EUR million)	2017	2016
Current income tax charge	210	129
Deferred tax:	-33	-91
Income tax expense reported in the income statement	**177**	**38**

Consolidated statement of comprehensive income (EUR million)	2017	2016
Effect of re-measurement of defined benefit pensions	-1	12
Income tax charged directly to other comprehensive income	**-1**	**12**

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% applied, while in Germany, on average, a marginal statutory corporate income tax rate of 29.3% applied (including trade tax by municipality or 'Gewerbesteuer'). Reconciliation between tax expense and the accounting profit multiplied by a statutory income tax rate of 25% is as follows:

(EUR million)	2017	2016
Profit before income tax	**730**	**280**
Statutory income tax rate of 25% (The Netherlands, 2016: 25%)	183	70
Effect of higher tax rate in Germany	24	7
Deferred tax differences	-8	-27
Non-deductible interest	-12	2
Non-deductible/taxable mainly participation exemption effect	-6	-11
Tax paid by third parties	-4	-3
At the effective income tax rate of 24% (2016: 14%)	**177**	**38**

The main reasons for the lower effective tax rate (1% lower) were the effect of the higher tax rate in Germany on the one hand (increased ETR effect) and the effect of our share in profit of joint ventures and associates is (subject to the Dutch participation exemption), usage of Interest carry forward in Germany and a future German tax credit. The line deferred and current tax differences relates to adjustments of the tax position.

Deferred tax relates to the following:

	Statement of financial position		Statement of income	
(EUR million)	2017	2016	2017	2016
Auction receipts	-215	-248	-32	-14
Investment contributions	-73	-73	-	-1
Tariffs to be settled	8	6	-3	-37
Accelerated depreciation for tax purposes	-165	-176	-11	-16
Provisions	224	190	-36	-20
Profit allocation to hybrid	-4	-5	-	-
Other	8	57	49	-3
Net deferred tax assets/(liabilities)	**-217**	**-249**		
Deferred tax expense/(income)			**-33**	**-91**

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

(EUR million)	2017	2016
Deferred tax assets	5	3
Deferred tax liabilities	-222	-252
Deferred tax, net	**-217**	**-249**

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

(EUR million)	2017	2016
At 1 January	**-249**	**-352**
Tax expense during the period recognised in statement of income	33	91
Tax income during the period recognised in other comprehensive income	-1	12
At 31 December	**-217**	**-249**

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, in accordance with the relevant 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 we operate and generate 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 (also in association with investments in subsidiaries, associates and interests in joint arrangements) 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 temporary differences arising from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities must be recognised gross in the statement of financial position unless:

- the entity has a legally enforceable right to set off current tax assets against current tax liabilities and
- the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity or
  - different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

3.5 Earnings per share

Earnings per share have been calculated by dividing the profit for the year attributable to ordinary shareholder of the Group, 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)	**2017**	2016
Profit for the year attributable to ordinary shareholder of the company	477	167
Allocation to hybrid securities	-35	-33
Tax effect on allocation to hybrid securities	9	8
Profit for the year attributable to equity holders of the company adjusted for the allocation to hybrid securities	**451**	**142**
Weighted average number of ordinary shares in issue (in thousands)	200	200

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

We own a significant physical asset base to operate our transmission grid. To solve transmission bottlenecks and ensure grid stability we continue to invest in our network. To accommodate expanding solar and wind energy sources sizable further onshore and offshore grid investments in Germany and the Netherlands are necessary in the upcoming years. This section focuses on our tangible fixed assets and related commitments which form the basis of our activities.

4.1 Tangible fixed assets

(EUR million)	High-voltage substations	High-voltage connections	Other assets	Assets under construction	Total
Cost					
At 1 January 2016	**5,582**	**4,659**	**635**	**3,570**	**14,446**
Additions	169	215	18	1,446	1,848
Transfers	777	442	41	-1,260	-
Transfer to intangible assets	-	-	-	-13	-13
Changes in estimations (note 5.7.5)	-16	-25	-	-	-41
Disposals	-26	-1	-18	-7	-52
At 31 December 2016	**6,486**	**5,290**	**676**	**3,736**	**16,188**
Additions	133	119	20	1,498	1,770
Initial recognition of acquired companies (note 5.2)	-	-	11	-	11
Transfers	302	408	7	-717	-
Transfer to intangible assets	-	-	-	-7	-7
Changes in estimations (note 5.7.5)	17	24	-	-	41
Disposals	-8	-	-	-	-8
At 31 December 2017	**6,930**	**5,841**	**714**	**4,510**	**17,995**
Depreciation and impairment					
At 1 January 2016	**1,066**	**1,134**	**141**	**-**	**2,341**
Depreciation for the year	304	215	47	-	566
Disposals	-24	-1	-15	-	-40
At 31 December 2016	**1,346**	**1,348**	**173**	**-**	**2,867**
Depreciation for the year	320	233	48	-	601
Disposals	-3	-	-	-	-3
At 31 December 2017	**1,663**	**1,581**	**221**	**-**	**3,465**
Net book value:					
At 1 January 2016	4,516	3,525	494	3,570	12,105
At 31 December 2016	5,140	3,942	503	3,736	13,321
At 31 December 2017	5,267	4,260	493	4,510	14,530

High-voltage substations include transformers and onshore and offshore converter stations. High-voltage connections consist of overhead and underground connections. Unlike lands for substations, lands surrounding high-voltage pylons and cables are generally not owned by the Group. Other tangible fixed assets consist of office buildings, office ICT equipment and other company assets.

In 2017 the discount rate for the decommissioning provision changed from 3.6% to 3% for OWF connections and from 2.6% to 2.2% for onshore connections (see note 5.7.5). Since the main part of the decommissioning provision was recognised as part of the carrying value of the related asset, the change in discount and inflation rate directly impacted this carrying value.

The amount of borrowing costs capitalised during 2017 is disclosed in note 3.3. The effective interest rate used to determine the amount of borrowing costs capitalised was 2.2% (2016: 2.5%).

Assets under construction

	2017		2016	
(EUR million)	**Investments**	**Assets under construction**	Investments	Assets under construction
TSO Netherlands	736	1,328	575	1,014
TSO Germany	1,032	3,182	1,273	2,722
Non-regulated activities	2	-	-	-
Total	**1,770**	**4,510**	**1,848**	**3,736**

The focus of our asset related activities is on (large) construction projects and maintenance activities, which are managed by separate departments.

ⓘ 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 depreciation amounts, 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 IT equipment	3-5
Process automation facilities	5
Other company assets	5-10

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

The majority of the deferred income relates to investment contributions received from certain third parties for the construction of a new substation, a grid connection or increased capacity for its connection (EUR 281 million; 2016: EUR 269 million). The current part of the investment contributions amounts to EUR 3 million (2016: EUR 5 million) and is presented separately in the statement of financial position.

Accounting policy

At initial recognition contributions received from third parties are measured at fair value, presented 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)	2017	2016
Off-balance sheet rights		
Bank guarantees received	1,380	1,577
Comfort letters received	682	552
Total	**2,062**	**2,129**
Off-balance commitments		
Capital commitments	3,705	2,353
Comfort letters issued	4	7
Operating lease commitments	283	286
Total	**3,992**	**2,646**

4.3.1 Bank guarantees received
Bank guarantees received include guarantees for investment projects.

4.3.2 Comfort letters received
The majority of comfort letters received is from construction companies primarily involved in the construction of German offshore projects.

4.3.3 Capital commitments
Capital commitments relate to commitments entered into with regard to the purchase of tangible fixed assets. The increase is mainly due to the start of the Dolwin6 project in Germany, for which we have entered into a capital commitments during 2017. Approximately EUR 1,401 million of capital commitments are payable within the next 12 months (2016: EUR 1,535 million).

4.3.4 Operating lease commitments
We have entered into operating lease commitments for certain assets. Operational lease commitments for German powerplants previously recorded under the grid related commitments (see note 7.2.1) have been reclassified to operational lease commitments (2016: EUR 164 million). The commitments comprise of fixed payments to German powerplants that serve as redispatch and/or black facility in order to enable TenneT to operate the grid and secure supply. In relation to the forthcoming IFRS 16 adoption as per 1 January 2019, the classification of these grid related commitments has been reassessed and as a result have been reclassified to the operating lease commitments.

In 2017 the operating lease expenses amount to 87 EUR million (2016: EUR 15 million). Future minimum lease payments under non-cancellable operating leases are as follows:

(EUR million)	2017	2016
Within the next 12 months	93	130
Whitin 2-5 years	149	106
More than 5 years	41	50
Total	**283**	**286**

ⓘ 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

Other invested capital includes intangible assets to support our operations, goodwill related to acquired business and working capital. Working capital comprises current assets and current liabilities which results from our daily operations (such as trade receivables and payables). Our working capital requirements are significantly impacted by the execution of the 'Renewable Energy Sources Act' (EEG) legislation, our grid related accruals and investments.

We carry a provision that reflects the expected cost to remediate and decommission our assets. Also in the ordinary course of our business, we are party to several claims from and disputes with third parties. We record a provision for these claims and disputes when we expect a future cash outflow.

5.1 Intangible assets

(EUR million)	Goodwill	Software	Customer contracts	Other intangible assets	Intangible assets under construction	**Total**
Cost						
At 1 January 2016	**31**	**175**	**64**	**23**	**2**	**295**
Additions	-	4	-	-	2	6
Transfers	-	13	-	-	-13	-
Transfer from tangible fixed assets	-	1	-	-	12	13
At 31 December 2016	**31**	**193**	**64**	**23**	**3**	**314**
Additions	-	2	-	1	1	4
Initial recognition of acquired companies (note 5.2)	-	-	-	6	-	6
Transfers	-	7	-	-	-7	-
Transfer from tangible fixed assets	-	-	-	-	7	7
At 31 December 2017	**31**	**202**	**64**	**30**	**4**	**331**
Amortisation and impairment						
At 1 January 2016	**-**	**135**	**33**	**7**	**-**	**175**
Amortisation for the year	-	24	5	1	-	30
At 31 December 2016	**-**	**159**	**38**	**8**	**-**	**205**
Amortisation for the year	-	21	5	2	-	28
At 31 December 2017	**-**	**180**	**43**	**10**	**-**	**233**
Net book value:						
At 1 January 2016	31	40	31	16	2	120
At 31 December 2016	31	34	26	15	3	109
At 31 December 2017	31	22	21	20	4	98

At 31 December 2017 and 2016, goodwill was allocated to cash generating units (CGUs): TSO Netherlands (EUR 3 million), TSO Germany (EUR 24 million) and non-regulated activities (EUR 4 million).

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, we assess whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the asset's recoverable amount is estimated. The recoverable amount is the higher of an asset's or 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, intangible assets, with exception of goodwill, are assumed to 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 is assumed to have 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.

Impairment testing of goodwill

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the CGUs (our operating 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 pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, an appropriate valuation model is used, since no recent market transactions can be identified.

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

The recoverable amount of the TSO Germany CGU was determined based on a value in use calculation using cash flow projections from our three year business plan. The pre-tax discount rate applied to cash flow projections was 4.1%. The cash flows beyond the three-year period until 2037 were estimated on the basis of regulatory allowed returns and invested capital. The terminal value is determined estimating the regulatory asset base as of December 2037. We concluded that the recoverable amount was significantly in excess of the carrying value. Of the German TSO CGU, management determined that no impairment loss needed to be recognised.

5.2 Business combinations

Effective 17 February 2017 TenneT acquired the remaining 50% in Relined B.V. from Prorail for a cash consideration of EUR 5 million and consequently obtained full control.
The acquisition of Relined gave rise to an EUR 3 million gain and resulted in the derecognition of the joint venture interest of EUR 2 million.

ⓘ 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, we elect 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

We have, directly or indirectly, 50% equity stakes in BritNed Development Ltd. ('BritNed'), DC Nordseekabel GmbH & Co. KG ('NOKA'), DC Nordseekabel Beteiligungs GmbH, DC Nordseekabel Management GmbH, Reddyn B.V., Tensz B.V. and TeslaN B.V. These investments are classified as joint ventures, for which only the investments in BritNed (legal seat: Arnhem, the Netherlands) and NOKA (legal seat: Bayreuth, Germany) are considered as an investment of material value. Other joint ventures are considered immaterial and are therefore not further disclosed. The Group's share in profit of these immaterial joint ventures amounted EUR 1 million.

BritNed

BritNed is a joint venture with National Grid International Ltd, the British TSO. It owns and operates a 1,000 MW 'Direct Current'(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 SF, TenneT and KfW IPEX-Bank GmbH 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. At the moment the main activities of NOKA are the construction of the Southern part of the interconnector. Operating costs and trading revenue are shared equally between NOKA and Statnett.

The table below shows summarised financial information of material joint ventures and the reconciliation with the carrying amount.

Statement of financial position (EUR million)	2017 BritNed	2017 NOKA	2016 BritNed	2016 NOKA
Non-current assets	448	508	463	249
Cash and cash equivalents	16	24	46	15
All other current assets	45	6	13	13
Non-current liabilities	-11	-35	-11	-19
Current liabilities	-37	-139	-45	-72
Equity	**461**	**364**	**466**	**186**
Ownership TenneT	*50%*	*50%*	*50%*	*50%*
Carrying amount of the investment	**231**	**182**	**233**	**93**

Statement of income (EUR million)	2017 BritNed	2017 NOKA	2016 BritNed	2016 NOKA
Revenue	148	36	209	19
Depreciation and amortisation	-16	-	-16	-
Other costs	-19	-1	-21	-2
Operating profit	**113**	**35**	**172**	**17**
Finance income and expenses	-	-1	-3	-
Income tax expense	-22	-	-38	-
Profit for the year*	**91**	**34**	**131**	**17**
Ownership TenneT	*50%*	*50%*	*50%*	*50%*
Group's share in profit	**46**	**17**	**66**	**8**

* Profit for the year is equal to total comprehensive income.

BritNed has contingent liabilities of EUR 5 million (2016: EUR 5 million) mainly related to comfort letters issued. NOKA has contingent liabilities of EUR 0.8 billion (2016: EUR 0.6 billion) mainly related to investments.

None of our joint ventures can distribute profits until consent from all shareholders or partners has been obtained. In 2017 EUR 49 million dividend was received from BritNed (2016: EUR 83 million) and EUR 1 million from Reddyn B.V. (2016: EUR 2 million). During 2017 we contributed EUR 72 million to NOKA's capital (2016: EUR 37 million).

5.3.2 Associates

At 31 December 2017 our substantial investments in associates consisted 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 four immaterial investments in Energie Data Services Nederland B.V. (EDSN), European Market Coupling Company GmbH (EMCC), TSCNET Services GmbH (TSC) and ETPA Holding B.V. (ETPA). The Group's share in profit of these immaterial associates amounted to EUR 2 million.

The summarised financial information of the material associates and reconciliation with their respective carrying amount of the investment in the consolidated financial statements is as follows:

	2017		2016	
Statement of financial position (EUR million)	**HGRT**	**OTC**	HGRT	OTC
Non-current assets	103	106	98	111
Current assets	1	30	2	28
Other non-current liabilities	-	-141	-	-158
Current liabilities	-	-17	-	-4
Equity	**104**	**-22**	**100**	**-23**
Ownership TenneT	*34%*	*25%*	*34%*	*25%*
Carrying amount of the investment	**35**	**-**	**34**	**-**

	2017		2016	
Statement of income (EUR million)	**HGRT**	**OTC**	HGRT	OTC
Revenue	-	26	-	26
Depreciation and amortisation	-	-6	-	-6
Other costs, gains and losses	-	-5	-	-5
Operating profit	**-**	**15**	**-**	**15**
Finance income and expenses	8	-6	8	-6
Income tax expense	-	-2	-	-2
Profit for the year*	**8**	**7**	**8**	**7**
Ownership TenneT	*34%*	*25%*	*34%*	*25%*
Group's share in profit	**3**	**2**	**3**	**-**

* Profit for the year is equal to total comprehensive income.

HGRT

The legal seat of HGRT is in Paris, France. HGRT holds a 49% stake in EPEX. EPEX is the exchange for the power spot markets for the 'North West Europe' (NWE) region and the United Kingdom. At 31 December 2017, HGRT had no contingent liabilities outstanding (2016: nil). In 2017, EUR 2 million in dividends was received (2016: EUR 3 million).

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. These companies mainly own infrastructure assets specifically designed for terrestrial communications. OTC had no contingent liabilities as at 31 December 2017 (2016: EUR 2 million). EUR 2 million dividend from OTC was received in 2017 (2016: EUR nil).

Other

Our interest in other associates amounts to EUR 2 million.

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 we have 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 our share of the results of operations of the investment. Any change in other comprehensive income of those investors is presented as part of the other comprehensive income. In addition, when there is a change recognised directly in the equity of the investment, our share of any change is recognised in the statement of changes in equity. Unrealised gains and losses resulting from transactions between us and the investment are eliminated to the extent of the interest in the investment.
When an associate or joint venture makes dividend distributions to us in excess of our carrying amount, a liability is recognised if TenneT:
(i) is obliged to refund the dividend;
(ii) have incurred a legal or constructive obligation; or
(iii) made payments on behalf of the associate.
In the absence of such obligations, the excess in net profit for the period is recognised. When the associate or joint venture subsequently makes profits, this is only recognised when they exceed the excess cash distributions recognised in net profit plus any previously unrecognised losses.

After application of the equity method, we determine whether it is necessary to recognise an impairment loss on its investment in the joint venture or associate. At each reporting date, we determine 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 financial assets

(EUR million)	2017	2016
Receivables from related parties	23	18
Receivable from shareholder	280	630
Fees for credit facilities available	3	4
Other	5	3
Total	**311**	**655**

The receivable from related parties mainly consists of loans granted to NOKA (see note 5.3.1). The receivable from the shareholder reflects our contractual right to receive the cash consideration following the 2016 capital commitment. The remainder of the cash considerations will be received in 2018 (EUR 350 million) and in 2019 (EUR 280 million).

5.5 Account- and other receivables

(EUR million)	2017	2016
Amounts to be invoiced to EEG trade debtors	1,087	999
EEG trade receivables	40	34
Trade receivables	288	163
Amounts to be invoiced	479	376
Receivable from shareholder (note 5.4)	350	150
VAT receivables	41	33
Interest receivable	4	4
Other	145	116
Total	**2,434**	**1,875**

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 producers of renewable energy 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 legally 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 to avoid a net financing need for the TSOs. We act 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. unsettled charges to the other German TSOs) and energy trading revenues. EEG receivables are not at our free disposal.

5.5.2 Trade receivables

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

			Past due but not impaired		
(EUR million)	Total	Neither past due nor impaired	0-30 days	31-60 days	More than 60 days
2017	**288**	**254**	**11**	**3**	**20**
2016	163	132	12	1	18

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

(EUR million)	2017	2016
At 1 January	**5**	**8**
Charge for the year	5	-
Utilised	-	-1
Unused amounts reversed	-1	-2
At 31 December	**9**	**5**

As at 31 December 2017, receivables with an initial value of EUR 1 million (2016: EUR 1 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 Account- and other payables

(EUR million)	2017	2016
EEG accounts payable	2,342	2,017
Accounts payable	204	266
Payables in connection with tangible fixed assets purchases	365	393
Grid expenses payable	1,029	662
Interest payable	97	91
Social securities and other taxes payable	11	17
Payables to related parties	20	11
Other payables	286	209
Total	**4,354**	**3,666**

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 feed-in management, and (ii) redispatch measures.

Key estimates and assumptions

In terms of the accrued expenses for measures taken to restore the imbalance of the electricity grid, we procure balancing services and ask 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, we record 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 on the energy amount which could not be fed into the grid. The pass-through accrual is based on a comparison of the costs incurred and the revenue generated by the offshore liability surcharge.

5.6.4 Other payables

The other payables mainly comprise compensation payments to offshore wind farms, personnel related liabilities and accruals for which invoices need to be received.

5.7 Provisions

	2017			2016		
(EUR million)	**Current**	**Non-current**	**Total**	Current	Non-current	Total
Environmental and decommissioning	24	570	594	7	506	513
Tariff related	41	16	57	112	15	127
Other	27	111	138	22	121	143
Total	**92**	**697**	**789**	**141**	**642**	**783**

(EUR million)	Environmental management and decommis-sioning	Tariff related	Other	**Total**
At 1 January 2016	**460**	**178**	**123**	**761**
Addition	87	10	24	121
Utilisation	-4	-52	-3	-59
Changes in estimations	-45	2	-1	-44
Unused amounts reversed	-4	-12	-	-16
Imputed interest	19	1	-	20
At 31 December 2016	**513**	**127**	**143**	**783**
Addition	28	8	24	60
Utilisation	-3	-21	-7	-31
Changes in estimations	47	-	-	47
Unused amounts reversed	-9	-58	-22	-89
Imputed interest	18	1	-	19
At 31 December 2017	**594**	**57**	**138**	**789**

5.7.1 Provision for environmental management and decommissioning

The provision for environmental management and decommissioning serves to cover future obligations in relation to high-voltage connections and underground cables, and to cover the decommissioning costs. In 2017 this included an additional EUR 10 million (2016: EUR 74 million) for future decommissioning costs for projects constructed during 2017. These additional funds were not recognised through the statement of income. There was no significant decommissioning of substations in 2017. The first decommissioning of an OWF connection is expected to start in 2029.

5.7.2 Tariff related

Tariff-related provisions mainly relate to provisions for system service fees in the Netherlands. We charge electricity consumers a fee for system services performed. Following a change in law, the court in the Netherlands concluded that only parties with a direct connection to a grid maintained by a TSO are required to pay system service fees for the period prior to 31 December 2014. Consequently, we are required to refund certain amounts to parties without a direct grid connection. These refunds can be recouped through future tariffs. In 2017 EUR 58 million of the provided amount matured and was released to the statement of income.

5.7.3 Other provisions

The majority of the other provisions relate to risks associated with delays and interruptions of offshore connections in Germany. The connection of OWFs 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, delayed the timely realisation and/or interrupted the operational phase of offshore grid connection systems.

TenneT based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond control. Such changes are reflected in the assumptions when they occur.

5.7.4 ⓘ Accounting policy provisions

Provisions are recognised when there is (i) a legal or constructive obligation as a result of past events, (ii) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and (iii) 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. The useful life of the OWF connections is estimated at 20 years. The related decommissioning provision is discounted at a rate of 3% (2016: 3.6%). A change in the discount rate could have a maximum impact of EUR 82 million on the asset value. The onshore connections have a different profile for which a discount rate of 2.2% (2016: 2.6%) is used to calculate the net present value of expenditures. A change in discount rate of 1 % has an impact of EUR 3 million on the related book value.

The inflation rate remained at the same level as in 2016 (3.0%). A discount rate of 2.2% is applied for environmental management provisions (2016: 2.6%).

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, and the compensation paid to the OWFs.

We are of the opinion that the recorded provisions reflect the best estimate of the probable outflow of resources. However, 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.

5.8 Inventory

Our inventory is composed of oil which is used for measures taken at power plants that are standby for TenneT.

6. Capital structure and financing

To keep pace with the rising electricity consumption, the need for more transport capacity and shift in production areas, we must invest substantially in upgrading and expanding the high-voltage grid. Therefore a solid financial standing is needed to maintain good access to the financial markets to fund the necessary investments in our infrastructure. This section focuses on capital management, financing and the related risks.

6.1 Capital management

The primary objective of our capital structure is to ensure that we have a solid financial position to anticipate changes in the regulatory environment and to enable us to execute our extensive investment programme which is essential for the success of the energy transition in the Netherlands and Germany. The majority of the funding for our investment programme comes from the debt capital markets i.e. from institutional investors, commercial banks and international financial institutions (e.g. the EIB).

To maintain full access to financial markets at the most favourable conditions, we have 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 Funds From Operations (FFO) to 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 our cash requirement on a rolling 12-month forward-looking basis.

Our capital management objectives, policies or processes were unchanged during 2017 and 2016.

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

As of 31 December 2017 TenneT Holding B.V. had the following senior unsecured credit ratings from Standard & Poor's and Moody's Investor Service are consistent with our financial policy.

Credit rating at 31 December 2017 and 2016	Long-term rating	Short-term rating
Standard & Poor's	A– (stable outlook)	A-2
Moody's Investor Service	A3 (stable outlook)	P-2

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

To maintain a solid financial position, we set the FFO/Net debt ratio of at least 8% based on underlying financial information (see note 2), which meet the requirements as formulated by the perspective of credit rating agencies Standard & Poor's and Moody's Investor Service.

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

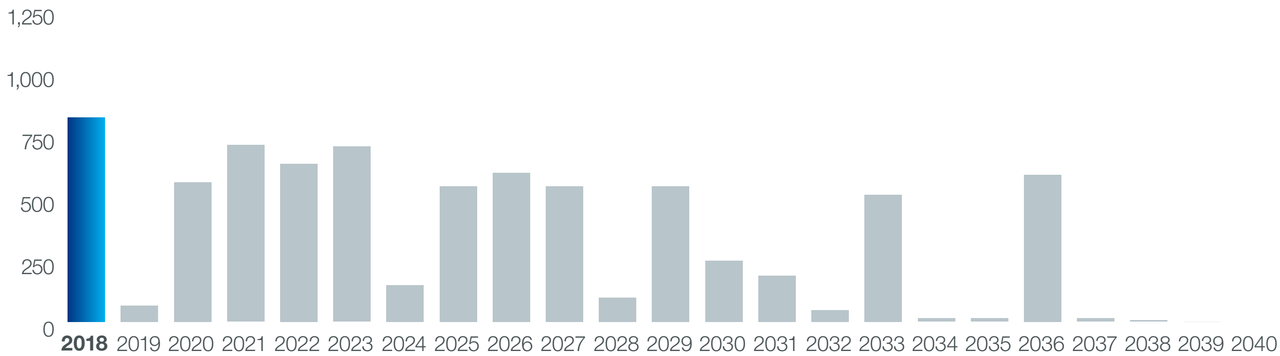
Based on underlying information (EUR million)	2017	2016
Profit for the year	531	523
+ amortisation, depreciation and impairments	651	619
+ result on disposal of assets (non-cash)	7	-
Total FFO	**1,189**	**1,142**
Net debt		
+ Long term borrowings	6,786	6,335
+ Short term borrowings	917	1,127
+ Bank overdrafts	39	42
- Cash and cash equivalents at free disposal	-55	-157
Total net debt	**7,687**	**7,347**
FFO/net debt	15.5%	15.5%

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

To minimise refinancing risk, we aim to have a diversified maturity profile of our senior debt. On 31 December 2017, our interest bearing debt (excluding bank overdrafts) had the following annual redemption profile:

Annual redemption of debt

EUR million



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

We monitor 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 sufficient 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, we have a EUR 2.2 billion revolving credit facility (RCF) and a EUR 350 million committed undrawn EIB facility available. The 12-month liquidity requirement was met on 31 December 2017 and 31 December 2016.

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 (2016: EUR 500 million), divided into one million shares of EUR 500 each. Of these shares, two hundred thousand shares have been issued and paid-up.

Share premium reserve
The share premium reserve consists of the capital contribution granted by the shareholder of ordinary shares, the Dutch State represented by the Ministry of Finance. In December 2016 the Dutch State formally completed the process to contribute up to EUR 1.2 billion of additional equity over the period 2017-2020 to finance TenneT's Dutch onshore- and offshore investment portfolio. The first tranche of EUR 150 million was received early March 2017. In 2018, TenneT will receive the next tranche of EUR 350 million. The final tranche of EUR 410 million in 2020 is conditional and will only be granted after further consideration of the financial situation of TenneT at that time.

Hedging reserve
The hedging reserve relates to the cumulative result of 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 Euro Medium Term Notes ('EMTN') were issued in 2010 and 2011. The end term of the original FSIRS is 2020 and 2021. As at 31 December 2017, the 2020 FSIRS amounts to EUR -3 million and for the 2021 FSIRS amounts to EUR 7 million.

Hybrid securities
Hybrid securities are deeply subordinated securities and are, with the exception of common equity, the most junior instruments in the capital structure of the company. The hybrid securities are undated and do not default on non-payment of coupons (unless such payment was mandatory following a resolution or payment of a dividend to common shareholders, i.e. as so called 'dividend pusher'). This means we can avoid payment to hybrid securities owners.

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

In April 2017, TenneT issued securities EUR 1 billion of green hybrid securities for the financing of high-voltage connections to offshore wind-farms in Germany. Subsequently, the hybrid securities of EUR 500 million issued in 2010 were redeemed. The net result of these two transactions, was an increase in TenneT's equity of EUR 500 million.
The hybrid securities bear an optional, cumulative coupon of 2.995%, payable at TenneT's discretion annually on 1 June of each year. As at 31 December 2017, the unpaid cumulative dividend amounts to EUR 18 million (2016: EUR 19 million), relating to the period 1 June until 31 December and payable on 1 June 2018.

Dividend distribution
In 2017 a common dividend of EUR 146 million (EUR 730 per share) to our ordinary shareholder was distributed. In agreement with the State of the Netherlands a dividend policy is established with a payout of 35% of the underlying profit for the year. We also paid a distribution to the holders of hybrid securities of EUR 37 million. The income tax benefit resulting from the latter distribution amounted to EUR 9 million.
The appropriation of the 2017 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	2017	2016
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	61%	62%
TenneT Offshore DolWin3 Verwaltungs GmbH ("TODV")	Germany	67%	67%

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
At 1 January 2016	**252**	**289**	**415**
Profit attributable to non-controlling interests	8	32	35
Dividends paid	-2	-35	-
Capital contribution	6	-	-
Capital repayment	-	-	-29
At 31 December 2016	**264**	**286**	**421**
Profit attributable to non-controlling interests	15	23	38
Dividends paid	-18	-25	-
Capital contribution	6	9	-
Capital repayment	-	-	-162
At 31 December 2017	**267**	**293**	**297**

The non-controlling interest in TODV and TOD3 are held by Copenhagen Infrastructure Partners (CIP), which owns a 67% economic interest in the adjusted (for certain regulatory effects) profits of these companies. As a result of the capital repayment of 162 million, the proportion held by CIP in TOD3 decreased in 2017. As the investment in TODV is not material we do not disclose these figures.

The non-controlling interest in TO2 and TO8 are held by Mitsubishi Corporation, which owns aggregate 49% of the voting interest and respectively 69% and 63% of the economic rights.

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

	2017		
Statement of financial position (EUR million)	**TO2**	**TO8**	**TOD3**
Non-current assets	1,079	1,638	1,483
Current assets	131	105	37
Non-current liabilities	-729	-1,190	-873
Current liabilities	-92	-86	-146
Equity	**389**	**467**	**501**
Attributable to owners of the parent	122	174	204
Attributable to non-controlling interests	267	293	297

	2016		
Statement of financial position (EUR million)	TO2	TO8	TOD3
Non-current assets	1,117	1,648	1,352
Current assets	128	164	96
Non-current liabilities	-763	-1,235	-668
Current liabilities	-99	-123	-92
Equity	**383**	**454**	**688**
Attributable to owners of the parent	119	168	267
Attributable to non-controlling interests	264	286	421

Statement of income (EUR million)	2017 TO2	2017 TO8	2017 TOD3
Revenue	182	249	132
Depreciation and amortisation	-79	-98	-
Other expenses	-45	-59	-2
Operating profit	**58**	**92**	**130**
Finance income and expenses	-25	-40	-18
Income tax expense	-11	-17	-14
Profit for the year	**22**	**35**	**98**
Other comprehensive income	-	-	-
Total comprehensive income	**22**	**35**	**98**
Attributable to non-controlling interests	15	23	38
Dividends paid to non-controlling interests	-	25	-

Statement of income (EUR million)	2016 TO2	2016 TO8	2016 TOD3
Revenue	177	248	118
Depreciation and amortisation	-76	-86	-
Other costs	-57	-50	-3
Operating profit	**44**	**112**	**115**
Finance income and expenses	-26	-39	-13
Income tax expense	-7	-23	-12
Profit for the year	**11**	**50**	**90**
Other comprehensive income	-	-	-
Total comprehensive income	**11**	**50**	**90**
Attributable to non-controlling interests	8	32	35
Dividends paid to non-controlling interests	2	35	-

(EUR million)	2017 TO2	2017 TO8	2017 TOD3
Net cash flows from operating activities	99	91	109
Net cash flows used in investing activities	-38	-83	-133
Net cash flows from financing activities	-61	-8	24
Change in cash and cash equivalents	**-**	**-**	**-**

(EUR million)	2016 TO2	2016 TO8	2016 TOD3
Net cash flows from operating activities	96	227	-39
Net cash flows used in investing activities	-79	-186	-363
Net cash flows from financing activities	-17	-41	402
Change in cash and cash equivalents	**-**	**-**	**-**

6.3 Borrowings

(EUR million)	Effective interest rate	Maturity	Redemption schedule	2017	2016
0.75% green bond 2017 EUR 500 million	0.9%	Jun-25	At maturity	496	-
1.375% green bond 2017 EUR 500 million	1.4%	Jun-29	At maturity	498	-
1.000% green bond 2016 EUR 500 million	1.1%	Jun-26	At maturity	498	498
1.875% green bond 2016 EUR 500 million	2.0%	Jun-36	At maturity	491	491
1.250% green bond 2016 EUR 500 million	1.4%	Oct-33	At maturity	492	492
1.75% green bond 2015 EUR 500 million	1.8%	Jun-27	At maturity	497	496
0.875% green bond 2015 EUR 500 million	1.0%	Jun-21	At maturity	499	498
3.88% bond 2011 EUR 500 million	3.0%	Feb-18	At maturity	-	505
2.13% bond 2013 EUR 500 million	2.2%	Nov-20	At maturity	499	498
4.50% bond 2010 EUR 500 million	4.6%	Feb-22	At maturity	496	497
4.63% bond 2011 EUR 500 million	4.7%	Feb-23	At maturity	499	498
4.75% bond 2010 EUR 200 million	4.9%	Jun-30	At maturity	196	195
Non-current interest-bearing bonds				**5,161**	**4,668**
0.813% loan 2016 EUR 125 million	0.8%	2019-2038	Linear	125	125
2.74% loan 2012 EUR 150 million	2.7%	Sep-23	At maturity	150	150
4.12% loan 2010 EUR 150 million	4.1%	Jan-21	At maturity	150	150
0.72% loan 2015 EUR 500 million	0.7%	2018-2032	Linear	483	500
0.77% loan 2015 EUR 150 million	0.8%	2018-2037	Linear	142	150
4.44% loan 2010 EUR 140 million	4.4%	2016-2023	Linear	54	65
4.71% loan 2010 EUR 40 million	4.7%	2016-2022	Linear	12	15
4.40% loan 2010 EUR 40 million	4.4%	2016-2021	Linear	10	13
Non-current interest-bearing loans				**1,126**	**1,168**
0.646% green Schuldschein 2016 EUR 77 million	0.7%	May-22	At maturity	77	77
0.989% green Schuldschein 2016 EUR 100 million	1.0%	May-24	At maturity	100	100
1.310% green Schuldschein 2016 EUR 55 million	1.3%	May-26	At maturity	55	55
1.500% green Schuldschein 2016 EUR 50 million	1.5%	May-28	At maturity	50	50
1.750% green Schuldschein 2016 EUR 43 million	1.8%	May-31	At maturity	42	42
1.750% green Schuldschein 2016 EUR 95 million	1.8%	May-31	At maturity	95	95
2.000% green Schuldschein 2016 EUR 80 million	2.0%	May-36	At maturity	80	80
Non-current interest-bearing Schuldschein				**499**	**499**
Total non-current interest-bearing borrowings				**6,786**	**6,335**
3.88% bond 2011 EUR 500 million	3.0%	Feb-18	At maturity	500	-
Current interest-bearing bonds				**500**	**-**
Cash loans	0.0%	Jan-18	At maturity	110	25
EUR commercial papers	-0.3%	Mar-18	At maturity	265	1,085
0.72% loan 2015 EUR 500 million	0.7%	Sep-18	Linear	18	-
0.77% loan 2015 EUR 150 million	0.8%	Jan-18	Linear	7	-
4.44% loan 2010 EUR 140 million	4.4%	Nov-18	Linear	11	11
4.71% loan 2010 EUR 40 million	4.7%	Nov-18	Linear	3	3
4.40% loan 2010 EUR 40 million	4.4%	Nov-18	Linear	3	3
Current interest-bearing loans				**417**	**1,127**
Total current interest-bearing borrowings				**917**	**1,127**
Total borrowings				**7,703**	**7,462**

Changes in our borrowings arising from our financing activities are as follows:

(EUR million)	Non-current interest-bearing bonds	Non-current interest-bearing loans	Non-current interest-bearing Schuldschein	Total
At 1 January 2016	**3,189**	**1,455**	**-**	**4,644**
Cash inflow from new borrowings	1,479	1,235	499	3,213
Cash outflow from redemptions	-	-395	-	-395
Amortisation (non-cash)	-	-	-	-
At 31 December 2016	**4,668**	**2,295**	**499**	**7,462**
Cash inflow from new borrowings	995	375	-	1,370
Cash outflow from redemptions	-	-1,127	-	-1,127
Amortisation (non-cash)	-2	-	-	-2
At 31 December 2017	**5,661**	**1,543**	**499**	**7,703**

A group of banks has provided TenneT a Revolving Credit Facility (RCF) of EUR 2.2 billion. Besides the Group received a loan facility of EUR 350 million from the European Investment bank (EIB) related to the NordLink project. The agreement was signed on 3 April 2017, which at year end 2017 was undrawn.

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) and can be broken down as follows:

	2017			2016		
(EUR million)	At free disposal	Not at free disposal	Total	At free disposal	Not at free disposal	Total
Collateral securities	-	61	61	-	66	66
EEG funds	-	1,213	1,213	-	981	981
Cash at bank	55	-	55	157	4	161
Cash and cash equivalents	**55**	**1,274**	**1,329**	**157**	**1,051**	**1,208**
Bank overdrafts	-39	-	-39	-42	-	-42
Total cash and cash equivalents used in cash flow statement	**16**	**1,274**	**1,290**	**115**	**1,051**	**1,166**

As of 2016, funds related to EEG have been legally separated on the request of the BNetzA. For further reference regarding EEG we refer to note 5.5.1.
Cash at banks carry 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 at bank, 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 IFRS treatment. The table also shows at what level in the valuation hierarchy the Group's financial instruments are measured at fair value.

		Carrying amount		Fair value		
(EUR million)	Notes	**2017**	2016	**2017**	2016	Hierarchy
Financial liabilities						
Borrowings:						
- Borrowings – bonds	6.3	5,661	4,668	6,064	5,124	Level 1
- Borrowings – other	6.3	2,042	2,794	2,087	2,846	Level 2
Total		**7,703**	**7,462**	**8,151**	**7,970**	

As at 31 December 2017 no instruments carried at fair value were held. Furthermore, we 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 at year end 2017, due to the short-term maturities of these instruments.

The following hierarchy by valuation technique is used in calculating the fair value of assets and liabilities:

- 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. 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.

- Loans and receivables are accounted for at amortised cost. Loans are classified as borrowings and other liabilities.
- Financial assets held for trading at fair value through profit or loss.
- Available For Sale financial assets (AFS)

Measurement and classification

The subsequent measurement of the material 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 (EIR) method. The EIR amortisation is included in finance income in the statement of profit or loss. The losses arising from impairment are recognised in the statement of profit or loss in finance costs.

Loans and receivables

This category is the most relevant to the Group. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are measured at amortised costs using the EIR, less impairment as referenced above. The EIR amortisation is included in finance income in the statement of profit or loss. The losses arising from impairment are recognised in the statement of profit or loss in finance costs.

Financial instruments at fair value through profit or loss

Financial instruments are included in the balance sheet when the Group becomes 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. Otherwise, financial instruments are classified as short-term.

AFS financial assets

Available For Sale (AFS) financial assets include equity investments and debt securities. After initial recognision they are subsequently measured at fair value with unrealised gains or losses recognised in OCI and credited to the AFS reserve until the investment is derecognised, at which time, the cumulative gain or loss is recognised in other operating income.

Hedge accounting

We have applied cash flow hedge accounting on ''Financial Systems Interface and Requirements Staff" (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 is amortised over the period in which the original hedged item is expected to affect profit or loss.

6.7 Financial risk management

Our business activities are exposed to various financial risks such as interest rate risk, credit risk, liquidity risk and refinancing risk, which are described in detail in this note. Our financial risk management strategy primarily focuses on protecting the liquidity, equity capital and net result in order to safeguard our ability to continue active operations while providing an adequate return to our shareholders. Our 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, are set out in this note. For details about regulatory risk we refer to the 'Risk Management' section of our Executive Board report.

Risk management related to financing activities is conducted by our Treasury department under policies approved by our Executive Board. Our financial risk management objectives, policies and processes were unchanged in 2017 compared to 2016. The Treasury department's objective is to facilitate the realisation of our financial and strategic objectives from a funding and financial risk perspective. Our Executive Board and Audit, Risk and Compliance Committee approved an update of the Treasury Statute in 2017. The Treasury Statute 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 open positions. Any speculative use of financial instruments is expressly not authorised. Our Executive Board has also approved specific risk management solutions such as the issuance of new debt capital market instruments.

Interest rate risk

We are exposed to interest rate risk on our revenue and on our debt portfolio. To manage the interest rate risk, our policy is to ensure that the majority of our 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 associated interest rate risk is limited. An increase or decrease in interest rates of 2 percentage points would create an increase or decrease of EUR 8 million in our net interest cost (2016: EUR 20 million) resulting from short-term loans.

Furthermore, there is a risk that interest payable on liabilities exceeds compensation interest receivable by TenneT under the prevailing regulatory systems. The ACM has set the relevant interest rate which will linearly decrease from 3.58% in 2016 to 2.29% in 2021. In Germany, actual interest costs are compensated up to a predefined maximum on a rolling average basis.

Credit risk

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

Operational credit risk

In respect of our operating activities, we have a credit policy in place, which takes into account the risk profiles of our counterparties. We also have policies in place to monitor the financial viability of counterparties.

In both the Netherlands and Germany, we are 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 subsequent tariffs for system services. For certain situations, securities in the form of bank guarantees and collaterals are held as protection against the default risk of parties with balance responsibility.

With respect to the investment projects, we ask 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 requires handling of large cash flows. Our policies are aimed at minimising the risks associated with the clearing transactions in connection with these cash flows.

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

Financial credit risk

In 2017, financial credit risk arose mainly from our transactions and positions with 50 institutions. As at 31 December 2017, the maximum credit risk amounted to EUR 55 million (2016: EUR 157 million). Funds related to EEG are no longer at our free disposal and are legally separated from our cash at bank. In accordance with EEG legislation, shortfalls are reimbursed in the subsequent year's EEG levy. As a result, there is no credit risk on the side of TenneT TSO GmbH regarding the EEG funds and therefore not included in the aforementioned credit risk amount.

In accordance with our treasury policies, counterparty credit exposure is monitored frequently against the counterparty credit limits. We have concentration limits in place when funds are placed on deposit or when financial derivatives are entered into. At 31 December 2017 we did not have any deposits with third parties (2016: nil) and no financial derivatives outstanding.

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

Liquidity risk

Liquidity risk is defined as the risk that the Group cannot meet its short-term financial obligations. Our objective when managing liquidity is to be able to meet our short-term obligations at all times. Liquidity is monitored every month on a rolling 12-month forward-looking basis. The liquidity requirement was met at 31 December 2017 and 31 December 2016, quarter ads and at all it between as explained in note 6.1.

The following maturity schedule presents our 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	More than 5 years	Total
At 31 December 2017							
Borrowings	6.3	113	832	128	2,489	5,348	8,910
Account- and other payables	5.6	2,209	587	1,461	-	-	4,257
Other financial liabilities		61	-	-	-	-	61
Total		**2,383**	**1,419**	**1,589**	**2,489**	**5,348**	**13,228**
At 31 December 2016							
Borrowings	6.3	468	594	212	2,394	5,029	8,697
Account- and other payables	5.6	1,763	454	1,358	-	-	3,575
Other financial liabilities		66	-	-	-	-	66
Total		**2,297**	**1,048**	**1,570**	**2,394**	**5,029**	**12,338**

Our borrowings, have a diversified maturity profile, which reduces any refinancing risks (see also note 6.1).

In order to minimise our exposure to liquidity risk, we have a EUR 2.2 billion committed revolving credit facility (RCF) at our disposal for general corporate purposes. At 31 December 2017, this facility was undrawn. Furthermore, we had EUR 350 million of undrawn long-term loan commitments from the EIB available at 31 December 2017. Finally, we had EUR 450 million of short-term uncommitted credit facilities available at year end. At the balance sheet date, EUR 39 million (2016: EUR 42 million) were drawn from these facilities.

The size of our credit facilities is such that we expect 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 our credit facilities include negative pledge and pari passu clauses. No security interest over any of the Group's assets has been provided. All credit facilities have floating-rate interest conditions.

We also have access to diversified funding sources through our EUR 8 billion EMTN programme and our EUR 2.2 billion CP programme. Both programmes significantly reduce our dependency on the banking sector.

We expect to meet our financial obligations for 2018 with (i) cash and cash equivalents, (ii) funds from operations (iii) unused credit facilities, (iv) capital contribution from the Dutch State and (v) capital market transactions. We expect to meet our financial obligations for the subsequent years through various capital market transactions and intend to manage future refinancing risks by spreading the tenors of new financing arrangements. Furthermore, we plan to increase our equity capital in the short to medium-term.

Refinancing risk

There is a risk of a lack of access to equity on a sustainable basis. This risk reflects the inability to raise additional equity in a timely fashion in case of large increases in our 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 regulators income and returns to investors.

To address this risk, TenneT's shareholder the Dutch State, made available EUR 1.2 billion of additional equity over the period 2017-2020 to enable the financing of future investments in the Dutch grid (see note 6.2.1).

7. Other disclosures

Other mandatory disclosures, such as details of pension liabilities and related party transactions, which are not directly related to our business are described in this note.

7.1 Net employee defined benefit liabilities

7.1.1 Pension plans Germany

We have defined benefit plans for the majority of our German personnel. Said personnel are mainly employed based on the collective labour agreement of 'Tarifgruppe Energie' and thus enjoys benefits in the form of old-age, disability and surviving dependents' pensions. The large majority of the benefit obligations are based on pension schemes that define annual pension modules based on respective employee's pensionable income of the particular year. Furthermore, each employee is allowed to defer a certain amount compensation to raise the annual pension module within defined bounds.

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 'Beitragsplan' (hereafter referred to as 'pension scheme 2008'), as well as to a small number of individual pension commitments. The pension obligations related to these plans are partly covered by assets: primarily a Contractual Trust Arrangement (CTA) administrated by 'Helaba Pension Trust e.V.' (Helaba) and assets held by 'Versorgungskasse Energie VVaG' (VKE). According to German law, TenneT remains ultimately liable for fulfilling these pension obligations.

Until December 31, 2017 the plan assets held by VKE, were part of a reinsurance contract. Based on the partners' decision to liquidate VKE these reinsurance contracts will be terminated and the underlying funds will be transferred into an additional CTA during 2018. Based on this we concluded that the claims from the liquidation of VKE still qualify as plan assets.

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 absorbed older plans. As part of the transition in 2001 to the new plan, employees were guaranteed a vested pension module 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 yearly pensionable 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. Yearly fixed pension modules are calculated with a fixed internal interest rate that sum up to the total earned pension benefits of the respective employee.

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.

Pension cost is composed of the employer-funded basic level based on the respective employee's yearly pensionable 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.

Annually, yearly fixed pension modules are calculated with an interest rate that is recalculated based on the weighted average current yield of German Federal Government Bonds (Bundesanleihen) with different maturities (10, 20 and 30 years) reflecting the average duration of the plan. The pension modules sum up to the total earned pension benefits of the respective employee.

Differences between the plans are limited and refer mainly to the way internal interest rates and the pensionable income are determined. Therefore disclosure in the notes below is based on weighted averages.

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

(EUR million)	2017	2016
Current service costs (note 3.2.2)	11	10
Net interest costs (note 3.3)	3	3
Net benefit expense	**14**	**13**

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

(EUR million)	2017	2016
Defined benefit obligation	281	267
Fair value of plan assets	-95	-88
Benefit liability	**186**	**179**

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

(EUR million)	2017	2016
Defined benefit obligation at 1 January	**267**	**214**
Current service costs	11	10
Interest costs	4	5
Benefits paid	-3	-2
Re-measurements on obligation	2	40
Defined benefit obligation at 31 December	**281**	**267**

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

(EUR million)	2017	2016
Fair value of plan assets at 1 January	**88**	**84**
Actual return on plan assets	5	2
Contributions by employer	2	2
Benefits paid	-	-
Fair value of plan assets at 31 December	**95**	**88**

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

	2017	2016
Quoted in active markets:		
Equity instruments	20%	26%
Debt securities	32%	57%
Investment funds	0%	3%
Other	3%	3%
Unquoted investments:		
Equities	3%	2%
Debt securities	0%	1%
Real estate	0%	4%
Cash	42%	4%

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)	2017	2016
Accumulated balance at 1 January	**129**	**89**
Re-measurements during the year	-3	40
Accumulated balance at 31 December	**126**	**129**

Re-measurements are related entirely to the actuarial changes resulting from financial assumptions.

ⓘ 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

Pension obligations and pension entitlements that are known on the reporting date are valued using economic trend assumptions including, among others, salary growth rates and pension increase rates, that are intended to reflect realistic expectations, as well as variables specific to reporting dates such as discount rates. The principal assumptions used in determining the pension obligation were as follows:

	2017	2016
Discount rate	1.95%	1.80%
Inflation rate	2.00%	2.00%
Future salary increases	2.50%	2.50%
Future pension increases	1.75%	1.75%

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

(EUR million)	Effect DBO
0.25% change of discount rate	15
0.5% change of salary increase rate	2
0.5% change of pension increase rate	4
10% change in mortality rate	9

The sensitivities indicated are computed based on the same methods and assumptions used to determine the present value of the defined benefit obligations and are based on variations in a single variable only. Note that the sensitivity analyses may not be representative of an actual change in the defined benefit obligation, as it is unlikely that changes in assumptions would occur in isolation.

We expect to contribute EUR 3 million to our defined benefit pension plans in 2018 and expect the following, undiscounted, benefit payments from the plan:

(EUR million)	2017	2016
Within the next 12 months	3	3
Within 2-5 years	20	17
Within 5-10 years	34	31
More than 10 years	386	627
Total	**443**	**678**

7.1.2 Pension plan the Netherlands

For the majority of our Dutch personnel we have a multi-employer scheme, which is administered by the ABP Pension Fund (ABP) in the Netherlands. The pension contribution rate for 2017 was 21.1% of the pensionable salary. In 2018 we expect to contribute EUR 14 million to the multi-employer scheme administered by the ABP. Compared to the total participants in the ABP pension fund, our share in ABP is very limited. We are not liable for deficits in the multi-employer plan, but may be required to pay higher contributions (i.e. surcharge to the contribution rate) to the scheme like other participants.

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.

Since the financial situation of the ABP pension plan at 31 December 2015 was not adequate, ABP filed a recovery plan, which was approved by De Nederlandsche Bank (DNB) during the course of 2016. 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 policy funding ratio at the end of the preceding year. The policy funding ratio is the 12-month moving average of the nominal funding ratio. ABP's policy funding ratio as at 31 December 2017 was 104.4% (2016: 91.7%) and that is above the critical coverage rate level under which pensions would have to be reduced.

ⓘ 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)	2017	2016
Grid-related commitments	1,382	1,042
Guarantees issued	2,799	2,743
Other off-balance sheet commitments	628	15
Total off-balance sheet obligations	**4,809**	**3,800**
Off-balance sheet rights		
Government guarantees received	300	300
Other off-balance sheet rights	124	85
Total off-balance sheet rights	**424**	**385**

7.2.1 Grid related commitments
Grid-related commitments include unused auction receipts in the Netherlands amounting to EUR 646 million (2016: EUR 775 million). We sell cross-border transport capacity through auctions. In the Netherlands, the cash received in this respect is restricted. As described in note 4.3.4 the grid related commitments related to the German powerplants are reclassed to operational lease commitments.

7.2.2 Guarantees issued
Guarantees issued increased mainly due to an increased upstream guarantee from TOH 5, resulting from an increased asset base of TOH5.

7.2.3 Government guarantees received
TenneT holds a guarantee issued by the Dutch State for an amount of EUR 300 million expiring in 2020, relating to its (indirect) investment in TenneT TSO GmbH.

7.2.4 Other
Other off-balance sheet rights mainly comprise of TenneT's commitment to provide the NOKA joint venture with sufficient funds for the construction of the Southern Part of the Nordlink cable. Also there are 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.

Due to the nature of our business we received certain claims from our counterparties, which we believe are unlikely to prevail in court, although inherent uncertainty exists about the outcome in court. Therefore no provision has been accounted for. The majority of these claims relate to (i) construction contracts where additional payments would be capitalised, or (ii) claims relating to compensation for delays and interruptions where any compensation would be pass-through for TenneT or (iii) claims relating to refunds of transmission services, which would be compensated in future tariffs. All in all, in the unlikely event that these claims would be granted, this could have a material impact on the company's financials.

7.3 Related parties

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

Other material related parties are:

- State of the Netherlands: TenneT Holding B.V. is controlled by the Dutch State, which owns 100% of the Company's ordinary shares;
- Open Tower Company B.V.: OTC is deemed related since it is an indirect 25% 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.

Legal entities that share key management personnel

Mr Kroon is a member of the Supervisory Board of the Port of Rotterdam. We have 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. In the course of 2017 Mr. Kroon's membership of the Supervisory Board of the Port of Rotterdam ended.

Ms Hottenhuis is a member of the Executive Board of ARCADIS N.V. ARCADIS is one of our suppliers. Ms Hottenhuis has not been involved in any commercial 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 Executive Officer and a member of the Board of Tata Steel Europe. Tata Steel is one of our 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. In the course of 2017 Mr. Fischer's membership of the Supervisory Board ended. Further reference is made to the Supervisory Board report.

Mr Veenman was 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. In the course of 2017 Mr. Veenman's membership of the Supervisory Board Prysmian Holding Netherlands N.V. ended.

The Port of Rotterdam, ARCADIS and Prysmian Holding Netherlands N.V 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	2017	2016	2017	2016	
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	N/A	100%	N/A	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 Hoogspanning-snet	Arnhem	Netherlands	N/A	N/A	N/A	N/A	
TenneT Duitsland Coöperatief U.A.	Arnhem	Netherlands	100%	100%	100%	100%	*
TenneT Green B.V.	Arnhem	Netherlands	100%	100%	100%	100%	*
TenneT Orange B.V.	Arnhem	Netherlands	100%	100%	100%	100%	
TenneT TSO B.V.	Arnhem	Netherlands	100%	100%	100%	100%	
TenneT TSO Duitsland B.V.	Arnhem	Netherlands	100%	100%	100%	100%	*
TenneT TSO E B.V.	Arnhem	Netherlands	N/A	100%	N/A	100%	***
TransTenneT B.V.	Arnhem	Netherlands	100%	100%	100%	100%	*
WL Winet B.V.	Maasdijk	Netherlands	100%	100%	100%	100%	
Relined B.V.	Utrecht	Netherlands	100%	50%	100%	50%	
Relined GmbH	Emsbüren	Germany	100%	-	100%	-	
DC Netz BorWin3 GmbH	Bayreuth	Germany	100%	100%	100%	100%	
DC Netz BorWin4 GmbH	Bayreuth	Germany	N/A	100%	N/A	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%	
NOVEC GmbH	Emsbüren	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 Dolwin3 Beteiligungs GmbH & Co. KG	Bayreuth	Germany	51%	51%	39%	38%	**
TenneT Offshore Dolwin3 GmbH & Co. KG	Bayreuth	Germany	51%	51%	39%	38%	**
TenneT Offshore Dolwin3 Verwaltungs GmbH	Bayreuth	Germany	51%	51%	33%	33%	
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	Emsbüren	Germany	100%	100%	100%	100%	

* 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 of Section 264b of the German Commercial Code.
*** These entities merged with group entities during 2017

The consolidation includes a foundation called Stichting Beheer Doelgelden Landelijk Hoogspanningsnet. This foundation temporarily manages funds arising from the maintenance of the energy balance and auctioning of cross-border capacity by TenneT TSO B.V. We 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)	Notes	2017	2016
Revenue		**-**	**-**
Other operating expenses		-4	-3
Other gains/(losses)		3	-
Total operating expenses		**-1**	**-3**
Share in profit of joint ventures and associates		3	3
Operating profit		**2**	**-**
Finance income	8.2	171	167
Finance expenses	8.3	-171	-149
Finance result		**-**	**18**
Profit before income tax		**2**	**18**
Income tax expense		-22	-34
Profit from subsidiaries	8.4	497	183
Profit for the year		**477**	**167**

Company statement of financial position

For the year ended 31 December (EUR million)

Assets	Notes	2017	2016
Non-current assets			
Investments in subsidiaries	8.4	6,296	5,841
Investments in joint ventures and associates	8.5	35	36
Other financial assets	8.6	6,050	6,200
Total non-current assets		**12,381**	**12,077**
Current assets			
Other financial assets	8.6	1,692	801
Account- and other receivables		-	-
Cash and cash equivalents		51	154
Total current assets		**1,743**	**955**
Total assets		**14,124**	**13,032**

Equity and liabilities	Notes	2017	2016
Equity	8.7		
Paid up and called-up capital		100	100
Share premium		1,380	1,380
Revaluation reserve		54	65
Reserve for participating interests		8	5
Hedging reserve		4	5
Retained earnings		1,725	1,721
Unappropriated result		442	134
Equity attributable to ordinary shares		**3,713**	**3,410**
Hybrid securities		1,018	520
Equity attributable to owners of the company		**4,731**	**3,930**
Non-current liabilities			
Borrowings	8.8	6,786	6,335
Payables to group companies		280	630
Deferred tax liability		4	5
Total non-current liabilities		**7,070**	**6,970**
Current liabilities			
Borrowings	8.8	917	1,127
Account- and other payables	8.9	1,367	963
Bank overdrafts		39	42
Total current liabilities		**2,323**	**2,132**
Total equity and liabilities		**14,124**	**13,032**

Notes to the company financial statements

These notes contain information about the company financial statements of TenneT Holding B.V. Underlying details related to TenneT Holdings B.V.'s financial results and position are provided, as well as a description of the specific accounting policies applied when compiling these 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.

8.2 Finance income

Result on finance income is mainly related to the interest received on intercompany loans and in house banking activities (see note 8.6). The intercompany agreements have terms equivalent to those that prevail in arm's length transactions.

8.3 Finance expenses

Finance expenses mainly relate to interest on borrowings and credit facilities (2017: EUR 154 million; 2016: EUR 135 million).

8.4 Investments in subsidiaries

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

(EUR million)	**2017**	2016
At 1 January	**5,841**	**4,977**
Share in result	497	183
Capital contribution	-	780
Dividends received	-54	-71
Re-measurement of defined benefit pension	2	-28
Net effect on (partial) sale/acquisition of subsidiaries	10	-
At 31 December	**6,296**	**5,841**

In 2017 we increased our share in Relined from 50% to 100% and therefore it has become a subsidiary.
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 our share of losses in an investment equals or exceeds our interest in this investment, (including separately presented goodwill or any other unsecured non-current receivables, as part of the net investment), we do not recognise any further losses, unless we have incurred legal or constructive obligations or made payments on behalf of this investment. In this case, we will recognise a provision.

8.5 Investments in joint ventures and associates

Investments in joint ventures and associates are mainly related to HGRT.
In 2017, TenneT's share in HGRT's result amounted to EUR 3 million and EUR 2 million dividends were received.
Further reference is made to note 5.3.2 of the consolidated financial statements.

8.6 Other financial assets

(EUR million)	2017	2016
Receivable from shareholder	280	630
Receivables from subsidiaries	5,767	5,566
Credit facility fees	3	4
Total	**6,050**	**6,200**

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 our cost of fund rating+0.125%. These receivables are unsecured. The movement schedule is as follows:

(EUR million)	2017	2016
At 1 January	**6,200**	**4,636**
Capital contribution	-	630
Additions	657	1,044
Repayments	-391	-30
Transfer to current	-419	-78
Other movements	3	-2
At 31 December	**6,050**	**6,200**

Besides the non-current other financial assets, the company has EUR 1.7 billion of current financial assets which is related to the receivable from shareholder (EUR 350 million) and for EUR 1.2 billion to receivables from subsidiaries.

8.7 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.

The revaluation reserve serves to cover the IFRS 1 revaluation of tangible fixed assets in 2004. The reserve for participating interests relates to HGRT, for which we cannot enforce payment of dividends. The hedging reserve, the revaluation reserve and the reserve for participating interests are not freely distributable. In the consolidated financial statements, both the revaluation reserve and the reserve for participating interests are included in retained earnings.

The appropriation of the 2017 profit is at the free disposal of the General Meeting of Shareholders and has not been recorded in the financial statements.

8.8 Borrowings

Details on borrowings are included in the consolidated financial statements, see note 6.3.

8.9 Account- and other payables

(EUR million)	2017	2016
Payables to subsidiaries	1,260	854
Interest payable	97	91
Current income tax payable	5	15
Other payables	5	3
Total	**1,367**	**963**

8.10 Events after reporting period

See note 7.5 of the consolidated financial statements.

Arnhem, 20 February 2018

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
L.J. Griffith

* Statutory Director
** Statutory Director until 28 February 2018, unable to act as of 29 November 2017 (reference is made to the Supervisory Board report).

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