Financial statements

Consolidated financial statements

Consolidated statement of income

For the year ended 31 December (EUR million)

	Notes	2016		2015	
Revenue	3.1		**2,843**		**2,844**
Grid expenses	3.2.1	-1,511		-1,671	
Personnel expenses	3.2.2	-183		-154	
Depreciation and amortisation of assets	4.1, 5.1	-596		-749	
Other operating expenses	3.2.3	-182		-83	
Other (gains)/losses	3.3	-10		-	
Total operating expenses			**-2,482**		**-2,657**
Share in profit of joint ventures and associates	5.3		78		86
Operating profit			**439**		**273**
Finance income		7		11	
Finance expenses	3.4	-166		-141	
Finance result			**-159**		**-130**
Profit before income tax			**280**		**143**
Income tax expense	3.5		-38		-27
Profit for the year			**242**		**116**
Profit attributable to:					
Equity holders of ordinary shares	6.2.1	134		-5	
Hybrid securities	6.2.1	33		33	
Owners of the company			**167**		**28**
Non-controlling interests	6.2.2		75		88
Profit for the year			**242**		**116**

Earnings per share attributable to the equity holders of ordinary shares

For the year ended 31 December (EUR per share)

	Notes	2016	2015
Basic and diluted earnings per share	3.6	710	15

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	Reserve for exchange rate difference	Retained earnings	Unappropriated result	**Equity attributable to ordinary shares**	Hybrid securities	**Equity attributable to owners of the company**		
	Notes	6.2.1		6.2.1	6.2.1		6.2.1		6.2.2	
2015										
Other comprehensive income to be reclassified to profit or loss in subsequent years:										
Amortisation of hedges	6.2.1	1	-	-	-	1	-	1	-	1
Reclassification of exchange rate differences	5.2	-	2	-	-	2	-	2	-	2
Taxation	3.5	-	-	-	-	-	-	-	-	-
		1	**2**	**-**	**-**	**3**	**-**	**3**	**-**	**3**
Items not to be reclassified to profit or loss in subsequent years:										
Re-measurement of defined benefit pensions	7.1.1	-	-	9	-	9	-	9	-	9
Taxation	3.5	-	-	-2	-	-2	-	-2	-	-2
		-	**-**	**7**	**-**	**7**	**-**	**7**	**-**	**7**
Total other comprehensive income 2015		**1**	**2**	**7**	**-**	**10**	**-**	**10**	**-**	**10**
Profit for the year		-	-	-	-5	-5	33	28	88	116
Total comprehensive income 2015		**1**	**2**	**7**	**-5**	**5**	**33**	**38**	**88**	**126**
2016										
Other comprehensive income to be reclassified to profit or loss in subsequent years:										
Amortisation of hedges	6.2.1	-	-	-	-	-	-	-	-	-
Taxation	3.5	-	-	-	-	-	-	-	-	-
		-	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
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	3.5	-	-	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**

Consolidated statement of financial position

For the year ended 31 December (EUR million)

Assets	Notes	2016	2015
Non-current assets			
Tangible fixed assets	4.1	13,321	12,105
Intangible assets	5.1	109	120
Investments in joint ventures	5.3.1	328	299
Investments in associates	5.3.2	34	35
Deferred tax assets	3.5	3	2
Other financial assets	5.4	655	86
Total non-current assets		**14,450**	**12,647**
Current assets			
Inventories	5.8	74	33
Account- and other receivables	5.5	1,875	1,652
Income tax receivable	3.5	42	41
Cash and cash equivalents	6.4	1,208	52
Total current assets		**3,199**	**1,778**
Total assets		**17,649**	**14,425**

Consolidated statement of financial position

For the year ended 31 December (EUR million)

Equity and liabilities	Notes	2016	2015
Equity			
Equity attributable to ordinary shares	6.2.1	3,410	2,712
Hybrid securities	6.2.1	520	520
Equity attributable to owners of the company		**3,930**	**3,232**
Non-controlling interests	6.2.2	971	956
Total equity		**4,901**	**4,188**
Non-current liabilities			
Borrowings	6.3	6,335	4,249
Deferred income	4.2	279	269
Deferred tax liability	3.5	252	354
Provisions	5.7	642	581
Net employee defined benefit liabilities	7.1.1	179	130
Other liabilities		-	2
Total non-current liabilities		**7,687**	**5,585**
Current liabilities			
Borrowings	6.3	1,127	395
Deferred income	4.2	5	5
Income tax payable	3.5	14	81
Provisions	5.7	141	180
Other financial liabilities		66	42
Account- and other payables	5.6	3,666	3,932
Bank overdrafts	6.4	42	17
Total current liabilities		**5,061**	**4,652**
Total equity and liabilities		**17,649**	**14,425**

Consolidated statement of changes in equity

For the year ended 31 December (EUR million)

		Attributable to equity holders of the company									Non-controlling interest	Total equity
		Paid-up and called-up capital	Share premium reserve	Hedging reserve	Reserve for exchange rate difference	Retained earnings	Unappropriated result	**Equity attributable to ordinary shares**	Hybrid securities	**Equity attributable to owners of the company**		
	Notes	6.2.1		6.2.1		6.2.1	6.2.1	**6.2.1**	6.2.1		6.2.2	
At 1 January 2015		**100**	**600**	**4**	**-2**	**1,621**	**493**	**2,816**	**520**	**3,336**	**852**	**4,188**
Total comprehensive income		-	-	1	2	7	-5	5	33	38	88	126
Dividends paid	6.2.1	-	-	-	-	-	-117	-117	-	-117	-12	-129
Distribution on hybrid securities	6.2.1	-	-	-	-	-	-	-	-33	-33	-	-33
Tax on distribution on hybrid securities	6.2.1	-	-	-	-	-	8	8	-	8	-	8
Sale of subsidiary	6.2.2	-	-	-	-	-	-	-	-	-	-4	-4
Capital contribution	6.2.2	-	-	-	-	-	-	-	-	-	32	32
Appropriation remaining prior year result		-	-	-	-	384	-384	-	-	-	-	-
At 31 December 2015		**100**	**600**	**5**	**-**	**2,012**	**-5**	**2,712**	**520**	**3,232**	**956**	**4,188**
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**

Consolidated statement of cash flows

For the year ended 31 December (EUR million)

	Notes	2016	2016	2015	2015
Operational activities					
Operating profit			**439**		**273**
Non-cash adjustments to reconcile profit to net cash flows:					
Depreciation, amortisation and impairment of assets	4.1, 5.1	596		749	
Result on disposal of assets	4.1	-		16	
Gain on disposal of subsidiary	5.2	-		-16	
Share in profit of joint ventures and associates	5.3	-78		-86	
Dividends received from joint ventures and associates	5.3	88		90	
Increase/(decrease) in deferred income	4.2	10		53	
Movements in provisions and other (financial) liabilities and assets		28		-166	
			644		**640**
Working capital adjustments excluding EEG working capital:					
(Increase)/decrease in account- and other receivables	5.5	5		200	
(Increase)/decrease in inventories		-41		-9	
Increase/(decrease) in account- and other payables	5.6	-214		421	
Increase/(decrease) in current financial liabilities		24		4	
			-226		**616**
Income tax paid (net)			-211		-275
Net cash flows from operating activities excluding EEG working capital			**646**		**1,254**
EEG working capital adjustments:					
(Increase)/decrease in EEG receivables	5.5	-86		1	
Increase/(decrease) in EEG payables	5.6	-9		128	
			-95		**129**
Net cash flows from operating activities			**551**		**1,383**
Investing activities					
Purchase of tangible and intangible fixed assets	4.1, 5.1	-1,796		-2,508	
Proceeds from sale of tangible and intangible fixed assets	4.1, 5.1	3		6	
Sale of subsidiary	5.2	-		-289	
Acquisition of a subsidiary, net of cash acquired	5.2	-		-28	
Capital contribution to joint ventures and associates	5.3	-37		-32	
Proceeds from repayment of financial assets		-		12	
Interest received		-		1	
Net cash flows used in investing activities			**-1,830**		**-2,838**

Continuation >

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	Notes	2016		2015	
Financing activities					
Proceeds from borrowings	6.3	3,213		2,020	
Repayment of borrowings	6.3	-395		-698	
Interest paid		-119		-119	
Dividends paid to equity holders of the company	6.2.1	-196		-117	
Distribution on hybrid securities	6.2.1	-33		-33	
Dividends paid and capital repayments to non-controlling interests	6.2.2	-66		-12	
Proceeds from capital contributions by non-controlling interests	6.2.2	6		32	
Net cash flows from financing activities			**2,410**		**1,073**
Net change in cash and cash equivalents			**1,131**		**-382**
Cash and cash equivalents at 31 December	6.4	1,166		35	
Cash and cash equivalents at 1 January	6.4	35		417	
			1,131		**-382**

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 what drives our performance and highlight the key (financial) topics for 2016. 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 2016 were prepared and authorised by our Executive Board for issue in accordance with a resolution of the Supervisory Board on 6 March 2017.

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 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.

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

None of the new standards, amendments and interpretations as adopted by the EU that are effective as of 1 January 2016 impact significantly our financial statements. Consequently these are not further described.

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

A number of new standards, amendments to standards and interpretations, and annual improvement cycles were issued but not effective for the financial year beginning 1 January 2016. None of the changes in these standards has had a material impact on our financial statements and are therefore not described.

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

- IFRS 15 'Revenue from contracts with customers' introduces a new five-step model to be applied to revenue from contracts with customers and provides a more structured approach to measuring and recognising revenue. In accordance with this new standard revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The effective date of this new standard is 1 January 2018. Based on an assessment encompassing interviews within several departments and review of contracts the impact of this new standard is limited. We plan to adopt the new standard on the required effective date.
- IFRS 16 'Leases' sets out the principles for recognition, measurements and disclosures regarding leases. The new standard requires lessees to recognise most leases on their balance sheets. Lessees will have a single accounting model for all leases, eliminating the distinction between operating and finance leases (see note 4.3.5). Lessor accounting remains largely unchanged. The new standard will be effective from 1 January 2019 (subject to EU endorsement) with earlier adoption permitted if IFRS 15 has also been applied. We are currently finalising our assessment of the potential impact of IFRS 16 on our financial statements. We plan to adopt the new standard on the required effective date.
- IFRS 9 'Financial instruments' addresses the classification, measurement and recognition of financial assets and financial liabilities. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments and requires financial assets to be classified into two measurement categories: those measured at fair value and those measured at amortised cost. IAS 39's treatment of financial liabilities is carried forward to IFRS 9 essentially unchanged. The only change for financial liabilities valued against fair value is that IFRS 9 requires changes in the fair value of an entity's own credit risk to be recognised in other comprehensive income rather than the statement of income, unless this creates an accounting mismatch. The adoption of this new standard will have a limited impact on our disclosures to the financial statements and will not significantly affect our financial position or performance. The effective date of this new standard is 1 January 2018. We plan to adopt the new standard on the given effective date.

Reclassifications

The classification of financial items has been reassessed and as a result certain items have been reclassified in the statement of income and statement of financial position. Originally reported comparative figures have been reclassified in order to conform to the current year's presentation. The reclassifications do not affect prior years profit or equity.

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 2016. A list of the legal entities included in the consolidation is included in note 7.4.

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

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If we cease to have control of a subsidiary, it derecognises the subsidiary's assets (including goodwill) and liabilities, with any non-controlling interest and the cumulative translation differences recorded in equity. Furthermore, the 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.

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

2. Segment information

This section sets out the financial performance for the year split by the way the business (operating segments) is managed. Our performance is measured and 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 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 helps us to ensure that the energy market operates smoothly and efficiently, or are ancillary to it.

2.1 Segment analysis

Our Executive Board is the chief operating decision-making body (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.

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 or required to be settled 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 developments.

Overall, our operating segments are (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 those in Germany are considered separately into two segments (which is also the geographical distribution). This segmentation, based on applicable regulatory frameworks, is the key determinant for financial management of the business and for decision-making on budgets, allocation of resources and financing. 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 on an arm's length basis in a manner similar to transactions with third parties. These intercompany transactions are eliminated at a consolidated level. There is no material concentration of customers in either of the operating segments.

	2016					2015				
(EUR million)	**Revenue**	**EBIT**	**Investments**	**Assets**	**Liabilities**	Revenue	EBIT	Investments	Assets	Liabilities
TSO Netherlands	747	146	575	5,529	3,193	676	205	473	4,329	2,873
TSO Germany	2,477	617	1,273	13,993	9,381	2,597	769	1,926	13,204	8,807
Non-regulated companies	29	70	-	1,309	147	38	101	6	352	191
	3,253	**833**	**1,848**	**20,831**	**12,721**	**3,311**	**1,075**	**2,405**	**17,885**	**11,871**
Eliminations and adjustments	-26	1	-	-1,857	1,461	-21	-	-	-2,461	-250
Consolidated underlying information	**3,227**	**834**	**1,848**	**18,974**	**14,182**	**3,290**	**1,075**	**2,405**	**15,424**	**11,621**

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

In managing day-to-day operations within the two regulated segments (i.e. the Netherlands and Germany), one additional steering dimension is used: functional. The functional steering focuses on the specific roles and responsibilities in our asset chain and the support functions around it, safeguarding adequate challenge, segregation of duties and multidisciplinary approach of issues within the Executive Board and between the departments.

2.2 ⓘ Accounting policies applied for underlying financial information

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

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

Matching is achieved by recognizing 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. 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 2.3). In underlying financial information these auction receipts are classified as investment contributions (presented under 'liabilities'). An annual amount equal to the depreciation charges, plus a portion of the operating expenses, is recognised in the statement of income. Under IFRS these auction receipts are recognised as revenue.

The different accounting treatment of the regulatory deferral accounts results in a different fair value of the assets.

Change in accounting policies applied for underlying financial information

In 2016 we changed the underlying accounting for the regulatory revenue related to the net expense for pension-related defined benefit liabilities. In accordance with the changed underlying accounting policies, underlying revenue is matched to the IFRS net benefit expense. Differences between the matched underlying revenue and the regulatory revenue received in the respective year are related to differences in discount rates and effects of re-measurements. Therefore differences between the matched underlying revenue and the regulatory revenue received are recognised in underlying Other Comprehensive Income.

All in all, these differences are timing differences between the regulatory revenue in one individual year and the IFRS cost in one individual year. Over the lifetime of an employee the accumulated regulatory revenue equals accumulated IFRS cost. Up till 2016, the matching of accumulated regulatory revenue to accumulated IFRS cost was not fully embedded in our accounting policies applied for underlying financial information. Consequently, we changed the underlying accounting for the regulatory revenue related to the net expense for defined benefit liabilities in order to better reflect the matching of regulatory revenues and expenses.

This effect of this change of underlying accounting policy on both underlying equity as well as regulatory deferral accounts is nil. The effect on 2015 underlying net income (EUR 11 million) is considered as not material and consequently the originally reported underlying figures have not been adjusted.

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. Consequently, the aforementioned results in different deferred tax balances in underlying financial information compared to IFRS reported figures. No other differences between underlying financial information and IFRS are applicable.

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

2016 (EUR million)	**EBIT**	**Assets**	**Liabilities**	**Recovery/ reversal period (years)**
Consolidated underlying information	**834**	**18,974**	**14,182**	
To be settled in tariffs	-507	-979	-88	0 - 5
Auction receipts	77	-	-1,046	0 - 30
Investment contributions	-7	-	-273	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**	

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

The reasons for the given adjustments for reconciling consolidated underlying EBIT to consolidated IFRS EBIT are the same on revenue, the reconciliation for consolidated underlying revenue to consolidated IFRS revenue is therefore not shown in the above tables.

To be settled in tariffs

Revenue surpluses and deficits resulting from differences between expected (ex ante) and realised (ex post) electricity transmission volumes are incorporated in the tariffs of subsequent years in both Germany and the Netherlands. In the underlying financial information, these surpluses and deficits are recorded in the statement of financial position as 'to be settled in tariffs'. Compared to 2015, the decrease is mainly related to the decrease in system services expenses (EUR 0.3 billion) resulting from lower wind feed-in and redispatch expenses in 2016. These expenses have to be settled in future tariffs in coming years (see the Financial results in the Executive Board Report).

Auction receipts & investment contributions

Auction receipts result from auctioning the available transmission capacity on cross-border interconnections. The resulting receipts are not at our free disposal. In accordance with European law, auction receipts are to be used to investment in cross-border interconnections or refunded through tariff reductions. In the Netherlands, we have agreed with 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 30-year period.

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

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

Maintenance of the energy balance

As the system manager of the high-voltage grid in the Netherlands, 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 once approved by the ACM. Imbalance settlements collected in one year are used in a subsequent year offset permitted revenue for the given subsequent year, effectively reducing transmission tariffs. Consequently, these amounts in the underlying financial information are recorded as a liability in the statement of financial position.

Differences in tangible fixed assets

Differences in tangible fixed assets occur due to the difference in accounting treatment of the regulatory deferral accounts and the related cash flows in order to determine the economic useful life and recoverable amount of the assets resulting from acquisitions and used for impairment analysis. The difference is mainly related to (i) the decrease in value of the NorNed assets in 2015 (EUR 232 million) due to regulatory changes as recognised under IFRS (see note 7.1) and (ii) an impairment reversal in 2015 (EUR 90 million) in the underlying figures in 2015.

3. Results for the year

This section comprises notes related to the revenue, operating expenses and results for the year as calculated under IFRS. A detailed description of the results for the year is given in the 'Financial' section of our Executive Board report.

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)	2016	2015
Connection and transmission services	1,870	1,815
Maintenance of energy balance	71	119
Operation of energy exchanges	104	207
Offshore balancing	693	613
Other	105	90
Total	**2,843**	**2,844**

3.1.1 Connection and transmission services

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

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. AC frequency in the power grid must be 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 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.

3.1.3 Operation of energy exchanges and cross-border capacity

This amount includes auction revenues consisting of auctioning cross-border interconnection capacity. Due to the more sophisticated capacity calculation used in Flow Based Market Coupling, import and export capacities increased overall, but this had a dampening effect on differences in wholesale prices. Consequently, the revenues from auctioning cross-border interconnection capacity decreased in 2016 compared to 2015.

3.1.4 Offshore balancing

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

3.1.5 ⓘ Accounting policy with respect to revenue

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

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

3.2 Operating expenses

3.2.1 Grid expenses

(EUR million)	2016	2015
System services	835	1,132
Connection and transmission services	256	214
Maintenance of energy balance	52	88
Maintaining and operating transmission grids	371	245
Other	-3	-8
Total	**1,511**	**1,671**

System services expenses comprise mainly of the expenses for measures taken to restore the imbalance of the electricity grid and grid losses. Compared to 2015 less redispatch measures were taken in Germany in 2016 mainly due to better weather conditions and due to the start of the operations of the power line 'Frankenleitung' at the end of 2015 which led to noticeable relief of the grid in Franconia. A number of estimation uncertainties like feed-in volumes, weather conditions and prices affect the calculation of the grid expenses and related accrual (see paragraph 5.6.3)

3.2.2 Personnel expenses

(EUR million)	2016	2015
Salaries	227	205
Social security contributions	30	27
Pension charges defined benefit plans	10	10
Pension charges other plans	12	12
Other personnel expenses	16	16
Capitalised costs for tangible fixed assets	-112	-116
Total	**183**	**154**

Average workforce in FTEs (internal employees only)	2,954	2,825
Average workforce in FTES employed in the Netherlands	1,295	1,302

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
2016	**130**	**45**	**175**
2015	119	43	162

Executive Board (EUR thousand)	Fixed	Variable	Pension cost	Total
2016	**1,796**	**254**	**445**	**2,495**
2015	1,646	392	464	2,502

The aggregate Executive Board remuneration consists of remuneration paid to statutory directors of EUR 1,848 thousand (2015: EUR 1,851 thousand) and remuneration paid to non-statutory directors of EUR 641 thousand (2015: EUR 653 thousand). Pension remuneration equals (i) the contributions payable to the defined contribution plan for service rendered in the period or (ii), for defined benefit plans, the current service cost and, when applicable, past service cost. For further details on the pension plans, see note 7.1.

3.2.3 Other operating expenses

(EUR million)	2016	2015
Accommodation and office expenses	68	68
Consultancy expenses	16	13
Hiring of temporary personnel	19	18
Travel and living expenses	13	12
Other expenses	66	-28
Total	**182**	**83**

Other expenses in 2015 included a partial release of the provision for compensation payable to OWF operators in respect of possible interruptions of or delays in offshore high-voltage connections was recorded. For further details see note 5.7.3.

Consultancy expenses include the independent auditor's fees of Ernst & Young Accountants LLP allocated to the financial year to which they relate and amounts to EUR 524 thousand for the audit of financial statements and EUR 207 thousand for other assurance services. The total fees for Ernst & Young network firms (including Ernst & Young Accountants LLP) were as follows:

(EUR thousand)	2016	2015
Audit of the financial statements	1,286	1,226
Other assurance services	360	380
Total assurance services	**1,646**	**1,606**
Tax consultancy	105	50
Other services	46	109
Total other services	**151**	**159**
Total auditor's fees	**1,797**	**1,765**

3.3 Other (gains)/losses

The other (gains)/losses comprise mainly from a settlement with a third party outside the ordinary course of business.

3.4 Finance expenses

(EUR million)	2016	2015
Interest on borrowings and credit facilities	135	115
Capitalised interest on assets under construction	-10	-19
Interest on provisions	20	15
Interest on defined benefit pensions	3	2
Other finance expenses	18	28
Total	**166**	**141**

3.5 Income tax

We comply with all applicable tax legislation in a socially responsible manner, helping the business achieve its goals by providing viable and practical tax advice and maintaining the highest levels of transparency, quality and integrity. Management responsibility and oversight of our tax strategy lies with our CFO, our Senior Manager Financial Control and our Corporate Tax Manager who monitor our tax activities and report to the Executive Board and Audit, Risk and Compliance Committee.

Our tax strategy is in line with its corporate strategy. We believe that 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 show all its stakeholders, including the tax authorities, that it fully complies with all laws and regulations.

Income tax is payable in the Netherlands, Germany and Belgium. In the Netherlands, we signed 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 tax authorities. All corporate income tax returns have been filed up to and including 2014. Tax paid in the Netherlands in 2016 amounted to EUR 73 million.

In Germany, the corporate and trade tax returns for all German entities have been filed up to and including fiscal year 2014. During 2014, the German tax authorities initiated a tax audit covering the fiscal years 2008 to 2012 and relating to all German entities; as of 31 December 2016 this audit was ongoing. In 2016, we paid EUR 138 million for corporate income tax in Germany.

The key components of income tax expense are:

Consolidated income statement (EUR million)	2016	2015
Current income tax:		
Current income tax charge	129	175
Deferred tax:		
Relating to origination and reversal of temporary differences	-91	-148
Income tax expense reported in the income statement	**38**	**27**

Consolidated statement of comprehensive income (EUR million)	2016	2015
Effect of re-measurement of defined benefit pensions	12	-2
Income tax charged directly to other comprehensive income	**12**	**-2**

Income tax on profits has been provided at the rates prevailing in the respective countries. In the Netherlands, a statutory corporate income tax rate of 25.0% applies, while in Germany, on average, a statutory corporate income tax rate of 29.3% applies (including trade tax by municipality or 'Gewerbesteuer'). Reconciliation between tax expense and the accounting profit multiplied by the statutory income tax rate of 25% is as follows:

(EUR million)	2016	2015
Profit before income tax	**280**	**143**
Statutory income tax rate of 25% (The Netherlands, 2015: 25%)	70	36
Effect of higher tax rate in Germany	7	4
Deferred and current tax differences	-27	1
(Non)-deductible interest	2	5
Non-deductible/taxable mainly participation exemption effect	-11	-17
Tax paid by third parties	-3	-2
At the effective income tax rate of 14% (2015: 19%)	**38**	**27**

The main reasons for the lower effective tax rate (11% lower) are the effect of our share in profit of joint ventures and associates, which is subject to the Dutch participation exemption 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)	**2016**	2015	**2016**	2015
Auction receipts	-248	-263	-14	28
Investment contributions	-73	-75	-1	-
Tariffs to be settled	6	-31	-37	-54
Accelerated depreciation for tax purposes	-176	-191	-16	-55
Provisions	190	157	-20	-32
Profit allocation to hybrid	-5	-5	-	-
Hedging reserve	-	-	-	4
Other	57	56	-3	-39
Net deferred tax assets/(liabilities)	**-249**	**-352**		
Deferred tax expense/(income)			**-91**	**-148**

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

(EUR million)	**2016**	2015
Deferred tax assets	3	2
Deferred tax liabilities	-252	-354
Deferred tax, net	**-249**	**-352**

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

(EUR million)	**2016**	2015
At 1 January	**-352**	**-489**
Tax expense during the period recognised in statement of income	91	148
Initial recognition of acquired companies	-	-9
Tax income during the period recognised in other comprehensive income	12	-2
Reclassification to current liabilities	-	-
At 31 December	**-249**	**-352**

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 the accounting treatment of the related transaction. The tax charge comprises both current and deferred tax.

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the tax authorities. The tax rates and tax laws used to calculate these amounts are those enacted or substantively enacted at the reporting date in those countries where 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 are offset only if we have a legally enforceable right to set off assets and current tax liabilities, and the deferred taxes relate to the same taxable entity/fiscal unity and the same taxation authority.

3.6 Earnings per share

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

(EUR million)	**2016**	2015
Profit for the year attributable to ordinary shareholder of the company	167	28
Allocation to hybrid securities	-33	-33
Tax effect on allocation to hybrid securities	8	8
Profit for the year attributable to equity holders of the company adjusted for the allocation to hybrid securities	**142**	**3**
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 invest further in our network. Also to accommodate the expanding solar and wind energy capacity 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 are 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 2015	**3,981**	**3,662**	**507**	**3,882**	**12,032**
Additions	560	335	50	1,556	2,501
Initial recognition of acquired companies (note 5.2)	32	5	1	1	39
Transfers	1,056	668	106	-1,830	-
Transfer to intangible assets	-	-	-	-23	-23
Disposals	-47	-11	-29	-16	-103
At 31 December 2015	**5,582**	**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**
Depreciation and impairment					
At 1 January 2015	**779**	**792**	**128**	**-**	**1,699**
Depreciation for the year	251	196	37	-	484
Decrease in value due to regulatory changes	78	154	-	-	232
Disposals	-42	-8	-24	-	-74
At 31 December 2015	**1,066**	**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**
Net book value:					
At 1 January 2015	3,202	2,870	379	3,882	10,333
At 31 December 2015	4,516	3,525	494	3,570	12,105
At 31 December 2016	5,140	3,942	503	3,736	13,321

High-voltage substations include transformers and offshore converter stations. High-voltage connections consist of overhead and underground connections. 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.

Last year we agreed with the ACM that auction receipts will be returned to consumers in future tariffs, instead of using them for financing of assets. This change resulted in a reduction of the future economic benefits embodied in the NorNed assets to nil as from 1 January 2016 and as such a decrease of the remaining carrying value of the NorNed assets for TenneT from EUR 232 million to zero as per 31 December 2015.

In 2015 the disposal in assets under construction mainly related to the disposal of developed software (EUR 16 million).

In 2016 the discount rate for the decommissioning provision changed from 4% to 3.6% for OWF connections and from 4% to 2.6% for onshore connections (see note 5.7.5).

The amount of borrowing costs capitalised during the year ended 31 December 2016 was EUR 10 million (2015: EUR 19 million).

A change in the Dutch regulatory framework resulted in a financing compensation at the start of building certain assets under the regulatory regime (effective as at 1 April 2016). This resulted in a lower amount of capitalised borrowing costs for 2016 compared to 2015.

The effective interest rate used to determine the amount of borrowing costs eligible for capitalisation was 2.5% (2015: 3.3%).

Assets under construction

	2016		2015	
(EUR million)	**Investments**	**Assets under construction**	Investments	Assets under construction
TSO Netherlands	575	1,014	473	678
TSO Germany	1,273	2,722	1,926	2,892
Non-regulated activities	-	-	6	-
Total	**1,848**	**3,736**	**2,405**	**3,570**

Our focus is on our (large) construction projects and maintenance activities, which are managed by separate departments. The distinction between project execution is predominantly to execute our large investment portfolio in separate groups of similar projects, all governed by company-wide policies and guidelines regarding project management, governance and risk management.

ⓘ Accounting policy tangible fixed assets

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

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

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

Key estimates and assumptions tangible fixed assets

To calculate 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
Land (and its preparation for building) is not subject to depreciation	

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

4.2 Deferred income

(EUR million)	2016	2015
Investment contributions	269	251
Service contracts	3	4
Other	7	14
Total	**279**	**269**

Investment contributions relate to amounts received from certain third parties for the construction of a new substation, a grid connection or increased capacity for its connection. The current part of the investment contributions amounts to EUR 5 million (2015: EUR 5 million) and is presented separately in the statement of financial position.

ⓘ Accounting policy

At initial recognition fees 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)	2016	2015
Off-balance sheet rights		
Bank guarantees received	1,577	1,516
Comfort letters received	552	421
Total	**2,129**	**1,937**
Off-balance commitments		
Capital commitments	2,353	2,463
Comfort letters issued	7	27
Operating lease commitments	122	138
Total	**2,482**	**2,628**

4.3.1 Bank guarantees received

Bank guarantees received include guarantees with respect to prepayments in relation to 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 Comfort letters issued

We have issued comfort letters for the (long-term) financial obligations of TenneT Offshore companies to several external parties. Also several comfort letters are issued to our subcontractors as part of the construction of tangible fixed assets, of which the majority relate to offshore projects in Germany. Comfort letters issued for which capital commitments have also been entered into (EUR 861 million) are included as part of the 'capital commitments' or either fulfilled by actual purchases. In addition, comfort letters issued for matters for which provisions have been recognised in the statement of financial position (EUR 483 million) are also excluded from the table above to the extent of such provisions.

4.3.4 Capital commitments

Capital commitments relate to commitments entered into with regard to the purchase of tangible fixed assets. Resulting from the progress made in mainly German offshore projects the outstanding capital commitments decreased. Approximately EUR 1,535 million of capital commitments are payable within the next 12 months (2015: EUR 1,337 million).

4.3.5 Operating lease commitments

We have entered into operating lease commitments for certain office buildings and vehicles. In 2016 the operating lease expenses amount to EUR 15 million (2015: EUR 11 million). Future minimum lease payables under non-cancellable operating leases are as follows:

(EUR million)	2016	2015
Within the next 12 months	20	20
Whitin 2-5 years	52	54
More than 5 years	50	64
Total	**122**	**138**

For 2016 and 2015 we did not have any financial leases.

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

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

5. Other invested capital including working capital and provisions

Other invested capital include intangible assets to support 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 EEG legislation, our grid related accruals and purchases for investments.

Furthermore, due to the transmission of energy to power homes and business, energy has to travel long distances across many different types of terrain. This inevitably has an impact on the environment. Therefore 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 payment to settle it, where the amount is estimated.

5.1 Intangible assets

(EUR million)	Goodwill	Software	Customer contracts	Other intangible assets	Intangible assets under construction	Total
Cost						
At 1 January 2015	**27**	**144**	**64**	**22**	**3**	**260**
Additions	-	5	-	1	2	8
Initial recognition of acquired companies	4	-	-	-	-	4
Transfers	-	26	-	-	-26	-
Transfer from tangible fixed assets	-	-	-	-	23	23
At 31 December 2015	**31**	**175**	**64**	**23**	**2**	**295**
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**
Amortisation and impairment						
At 1 January 2015	**-**	**108**	**28**	**6**	**-**	**142**
Amortisation for the year	-	27	5	1	-	33
At 31 December 2015	**-**	**135**	**33**	**7**	**-**	**175**
Amortisation for the year	-	24	5	1	-	30
At 31 December 2016	**-**	**159**	**38**	**8**	**-**	**205**
Net book value:						
At 1 January 2015	27	36	36	16	3	118
At 31 December 2015	31	40	31	16	2	120
At 31 December 2016	31	34	26	15	3	109

At 31 December 2016, goodwill was allocated to cash generating units (CGUs): TSO Netherlands (EUR 3 million), TSO Germany (EUR 24 million) and non-regulated companies (EUR 4 million). At 31 December 2015 the allocated goodwill amounts to CGUs were EUR 3 million, EUR 24 million and EUR 4 million respectively.

In prior year Netz Veltheim GmbH was acquired and EUR 4 million of goodwill was recorded as a result of this transaction (see note 5.2).

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 assesses whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the asset's recoverable amount is estimated. The recoverable amount is the higher end of an asset's or CGU's fair value less costs of disposal and its value in use. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

Key estimates and assumptions

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

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

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

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 post-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, an appropriate valuation model is used, since no recent market transactions can be identified.

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

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 post-tax discount rate applied to cash flow projections was 2.9%. 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 by discounting the estimated regulatory asset base as of December 2037. We concluded that the recoverable amount was significantly in excess of the carrying value. As a result of this analysis, management concluded that no impairment loss needed to be recognised.

5.2 Business combinations

May 2015: disposal of assets held for sale

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

The sale of APX resulted in a EUR 12 million gain, a decrease in the non-controlling interests of EUR 4 million, an increase in investments in associates (EUR 24 million) and a decrease in the cash and cash equivalents of EUR 295 million. Also the reserve for exchange rate differences relating to APX's foreign operation (EUR -2 million) was reclassified from equity to profit-or-loss.

July 2015: acquisition Netz Veltheim GmbH

In July 2015 TenneT acquired, through its subsidiary TenneT TSO GmbH, 100% of the shares of Netz Veltheim GmbH in Germany for a cash consideration of EUR 33 million. This company owns and operates 220 kV substations and connections.

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

(EUR million)	2015
Assets	
Tangible fixed assets	39
Account- and other receivables	182
Cash and cash equivalents	5
Liabilities	
Provisions	-9
Deferred tax liability	-8
Account- and other payables	-180
Net Assets	**29**
Goodwill arising from acquisition	4
Purchase consideration transferred	**33**

ⓘ 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, Relined B.V., 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 material.

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

NOKA
In February 2015, partner companies Statnett 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 through a wholly-owned Norwegian company. Operating costs and trading revenue are shared equally between NOKA and Statnett.

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

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

	2016				2015			
Statement of financial position (EUR million)	**BritNed**	**NOKA**	**Other**	**Total**	BritNed	NOKA	Other	Total
Non-current assets	463	249	11	723	479	103	11	593
Cash and cash equivalents	46	15	3	64	47	24	2	73
All other current assets	13	13	2	28	18	1	2	21
Non-current liabilities	-11	-19	-4	-34	-12	-11	-8	-31
Current liabilities	-45	-72	-9	-126	-33	-21	-6	-60
Equity	**466**	**186**	**3**	**655**	**499**	**96**	**1**	**596**
Ownership TenneT	*50%*	*50%*	*50%*		*50%*	*50%*	*50%*	
Carrying amount of the investment	**233**	**93**	**2**	**328**	**250**	**48**	**1**	**299**

	2016				2015			
Statement of income (EUR million)	**BritNed**	**NOKA**	**Other**	**Total**	BritNed	NOKA	Other	Total
Revenue	209	19	8	236	204	7	6	217
Depreciation and amortisation	-16	-	-1	-17	-16	-	-1	-17
Other costs	-21	-2	-5	-28	-15	-1	-3	-19
Operating profit	**172**	**17**	**2**	**191**	**173**	**6**	**2**	**181**
Finance income and expenses	-3	-	-	-3	1	-	-	1
Income tax expense	-38	-	-	-38	-32	-	-	-32
Profit for the year*	**131**	**17**	**2**	**150**	**142**	**6**	**2**	**150**
Ownership TenneT	*50%*	*50%*	*50%*		*50%*	*50%*	*50%*	
Group's share in profit	**66**	**8**	**1**	**75**	**71**	**3**	**1**	**75**

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

BritNed has contingent liabilities of EUR 5 million (2015: EUR 7 million) mainly related to operating leases and NOKA has contingent liabilities of EUR 0.6 billion (2015: EUR 0.7 billion) mainly related to investments. The other joint ventures have contingent liabilities outstanding of EUR 1 million, solely relating to Relined B.V. (2015: EUR 2 million solely relating to Relined B.V.).

Our joint ventures cannot distribute their profits until they obtain consent from all shareholders or partners. In 2016 EUR 83 million dividend was received from BritNed (2015: EUR 80 million) and EUR 2 million from Reddyn B.V. (2015: EUR 2 million). We contributed EUR 37 million to NOKA's capital (2015: EUR 32 million).

5.3.2 Associates

At 31 December 2016 our substantial investments in associates consist of a 34% interest in HGRT and a 25% interest in Open Tower Company B.V. (hereafter referred to as 'OTC'). In addition, the Group holds 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 summarised financial information of these associates and reconciliation with the carrying amount of the investment in the consolidated financial statements are as follows:

	2016			2015		
Statement of financial position (EUR million)	**HGRT**	**OTC**	**Total**	HGRT	OTC	Total
Non-current assets	98	111	209	99	117	216
Current assets	2	28	30	4	18	22
Other non-current liabilities	-	-158	-158	-	-156	-156
Current liabilities	-	-4	-4	-1	-5	-6
Equity	**100**	**-23**	**77**	**102**	**-26**	**76**
Ownership TenneT	*34%*	*25%*		*34%*	*25%*	
Carrying amount of the investment	**34**	**-**	**34**	**35**	**-**	**35**

	2016			2015		
Statement of income (EUR million)	**HGRT**	**OTC**	**Total**	HGRT	OTC	Total
Revenue	-	26	26	-	23	23
Depreciation and amortisation	-	-6	-6	-	-6	-6
Other costs, gains and losses	-	17	17	10	-5	5
Operating profit	**-**	**15**	**15**	**10**	**12**	**22**
Finance income and expenses	8	-6	2	-5	-6	-11
Income tax expense	-	-2	-2	1	-2	-1
Profit for the year*	**8**	**7**	**15**	**6**	**4**	**10**
Ownership TenneT	*34%*	*25%*		*34%*	*25%*	
Group's share in profit	**3**	**-**	**3**	**2**	**9**	**11**

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

HGRT

The legal seat of holding company HGRT is in Paris, France. HGRT holds a 49% stake in EPEX. EPEX is the exchange for the power spot markets for the NWE region and the United Kingdom. At 31 December 2016, HGRT had no contingent liabilities outstanding (2015: nil). In 2016, EUR 3 million in dividends was received (2015: EUR 1 million).

As a result of the sale of APX (see note 5.2) our interest initially increased in HGRT to 40% in 2015 and in the course of 2015 we sold 6% of our shareholding in HGRT for a cash consideration of EUR 6 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 EUR 2 million in contingent liabilities as at 31 December 2016 (2015: EUR 2 million). No dividend from OTC were received in 2016 (2015: EUR 7 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 we :
(i) are 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)	2016	2015
Receivables from other TSOs	-	63
Receivables from related parties	18	15
Receivable from shareholder	630	-
Fees for credit facilities available	4	6
Other	3	2
Total	**655**	**86**

The majority of receivables from other TSOs relate to costs charged ('horizontal balancing') in relation to German offshore connections. The receivable from related parties mainly consists of loans granted to NOKA (see note 5.3.1). The receivable from the shareholder reflects our contractual right to receive the cash consideration following the 2016 capital contribution. The total receivable amounts to EUR 780 million of which EUR 150 is classified as current (refer to note 5.5). The remainder of the cash considerations will be received in 2018 and 2019.

5.5 Account- and other receivables

(EUR million)	2016	2015
Amounts to be invoiced to EEG trade debtors	999	917
EEG trade receivables	34	30
Trade receivables	163	134
Amounts to be invoiced	376	424
Receivable from shareholder (note 5.4)	150	-
VAT receivables	33	64
Interest receivable	4	4
Other	116	79
Total	**1,875**	**1,652**

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. 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. The comparable 2015 figure has been changed due to a reclassification of the provision for EEG trade receivables (EUR 33 million) which was included in the bad debt provision for trade receivables.

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
2016	**163**	**132**	**12**	**1**	**18**
2015	134	93	12	2	27

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

(EUR million)	**2016**	2015
At 1 January	**8**	**4**
Charge for the year	-	7
Utilised	-1	-2
Unused amounts reversed	-2	-1
At 31 December	**5**	**8**

As at 31 December 2016, receivables with an initial value of EUR 1 million (2015: EUR 2 million) were fully provided for. In 2015 the bad debt provision included the provision for EEG receivables and the amount (EUR 33 million) is reclassified to the EEG receivables.

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)	**2016**	2015
EEG accounts payable	2,017	2,026
Accounts payable	266	163
Payables in connection with tangible fixed assets purchases	393	443
Grid expenses payable	662	993
Interest payable	91	78
Social securities and other taxes payable	17	13
Payables to related parties	11	6
Other payables	209	210
Total	**3,666**	**3,932**

5.6.1 EEG accounts payable

See note 5.5.1.

5.6.2 Payables in connection with tangible fixed assets purchases

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

5.6.3 Grid expenses payable

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

Key estimates and assumptions

In terms of the accrued expenses for measures taken 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 of compensation payments to offshore windparks, personnel related liabilities and accruals for which invoices need to be received.

5.7 Provisions

	2016			2015		
(EUR million)	**Current**	**Non-current**	**Total**	Current	Non-current	Total
Environmental and decommissioning	7	506	513	7	453	460
Tariffs related	112	15	127	167	11	178
Other	22	121	143	6	117	123
Total	**141**	**642**	**783**	**180**	**581**	**761**

(EUR million)	Environmental management and decommis-sioning	Tariffs related	Other	**Total**
At 1 January 2015	**363**	**201**	**237**	**801**
Addition	110	39	-8	141
Utilisation	-3	-48	-21	-72
Unused amounts reversed	-25	-14	-85	-124
Imputed interest	15	-	-	15
At 31 December 2015	**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**

5.7.1 Provision for environmental management and decommissioning

The provision for environmental management and decommissioning serves to cover future obligations to dispose of hazardous substances in relation to high-voltage connections and underground cables, and also to decommission assets. In 2016 this included an additional EUR 74 million (2015: EUR 111 million) for future decommissioning costs for projects constructed during 2016. These additional funds were not recognised through the statement of income. There was no significant decommissioning of substations in 2016. The first decommissioning of an OWF connection is expected to start in 2029.

The changes in estimations (see 5.7.5) are related to the changes of the discount rate (impact EUR 38 million) and the inflation rate (impact EUR -83 million). Since the main part of the decommissioning provision was recognised via the carrying value of the related asset, the change in discount and inflation rate was also recognised in the carrying value of the related asset. For the environmental provisions the change in these rates were fully recognised in the income statement.

5.7.2 Tariffs 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 the law, the court in the Netherlands concluded that only parties with a direct connection to a grid maintained by a TSO are required to pay system service fees for the period prior to 31 December 2014. Consequently, we are required to refund certain amounts to parties without a direct grid connection. These refunds can be recouped through future tariffs.

5.7.3 Other provisions

The majority of the other provisions relate to legal claims and to risks associated with delays and interruptions of offshore connections in Germany. The connection of OWFs 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. In 2015 the provision had been partly released resulting from technology improvements and changed completion dates of the OWFs themselves.

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

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 3.6% (2015: 4.0%). A change in discount rate of 1% has an impact of EUR 60 million on the asset value. The onshore connections have a different profile for which a discount rate of 2.6% (2015: 4.0%) 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 assets value.

In addition to the change of discount rate also the used inflation rate was updated in 2016 to 3.0%. (2015: 4.0%).

Depending on their profile, a discount rate of 2.6% or 3.6% is applied for the environmental management provisions (2015: 4.0%).

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

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

We are of the opinion that the recorded provisions reflect its 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

Inventory increased mainly due to the increase in oil which is used for measures taken at the power plants for TenneT.

6. Capital structure and financing

To keep pace with the rising consumption, the need for more capacity and shift in production areas we must invest substantially in upgrading and expanding the high-voltage grid. Therefore a solid financial reputation 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 its extensive investment programme which is essential for the success of the energy transition in the Netherlands and Germany. The majority of the funding for our investment programme comes from the debt capital markets i.e. from institutional investors, commercial banks and international financial institutions (e.g. the EIB). Also we seek additional equity capital (e.g. through capital contribution by the shareholder and/or third party participations), adjust dividends paid to the shareholder or revise the investment plans.

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

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

Our capital management objectives, policies or processes were unchanged during 2016 and 2015.

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

As of 31 December 2016 TenneT Holding B.V. had the following senior unsecured credit ratings from Standard & Poor's and Moody's Investor Service which meet the target formulated above:

Credit rating at 31 December 2016 and 2015	Long-term rating	Short-term rating
Standard & Poor's	A– (stable outlook)	A-2
Moody's Investor Service	A3 (stable outlook)	P-2

The credit ratings remained unchanged compared to 2015 and were confirmed by Standard & Poor's and Moody's Investor Service on 25 May 2016 and 20 May 2016, respectively.

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 is consistent with the perspective of credit rating agencies Standard & Poor's and Moody's Investor Service.

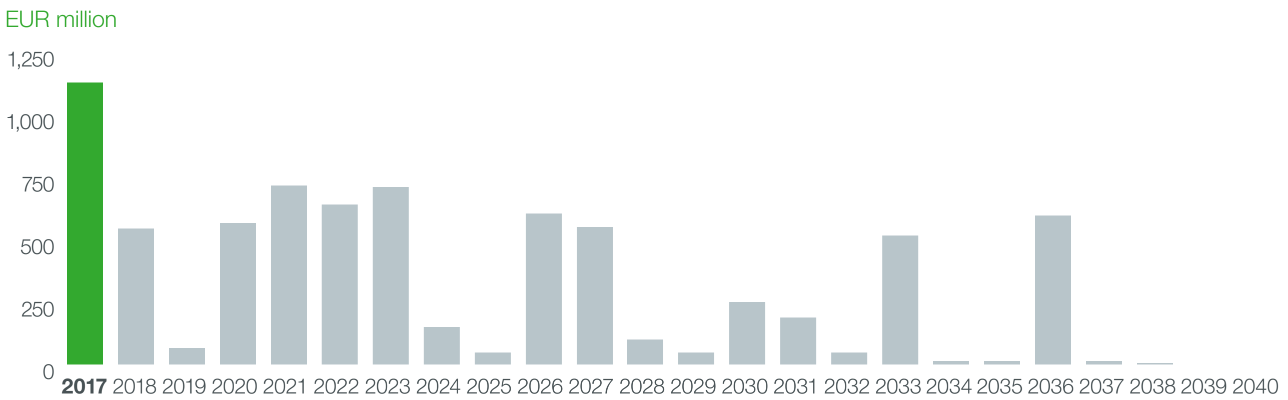
A reconciliation of the FFO and net debt is provided in the following table. Up till and including 2015 the net debt amount was adjusted for EEG working capital. As of 2016 the BNetzA decided that the funds related to EEG can no longer be at our free disposal and should be separated. The separation of these funds was realised in October 2016. Consequently, EEG working capital balances no longer need to be adjusted in the net debt position.

Based on underlying information (EUR million)	**2016**	2015
Profit for the year	523	681
+ amortisation, depreciation and impairments	619	433
+ result on disposal of assets (non-cash)	-	16
Total FFO	**1,142**	**1,130**
Net debt		
+ Long term borrowings	6,335	4,249
+ Short term borrowings	1,127	395
+ Bank overdrafts	42	17
- Cash and cash equivalents at free disposal	-157	-3
Total net debt (before EEG adjustments)	**7,347**	**4,658**
+ EEG related payables	2,017	2,026
- Amounts to be invoiced to EEG trade debtors	-999	-918
- EEG receivables	-34	-30
- EEG related VAT receivables	-3	-
- EEG funds	-981	-
Total net debt	**7,347**	**5,736**
FFO/net debt	15.5%	19.7%

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

To minimise any refinancing risks, we aim to have a diversified maturity profile of our senior debt.
On 31 December 2016, our interest bearing debt (excluding bank overdrafts) had the following annual redemption profile:

Annual redemption of debt



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

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 enough to meet the expected aggregate of scheduled debt repayments, investments in fixed assets and dividend payments over the subsequent 12 months. To support the 12-month liquidity requirement, we have a EUR 2.2 billion revolving credit facility (RCF). In addition, in October 2016 the last tranche (EUR 125 million) of our committed EIB facilities was drawn. The 12-month liquidity requirement was met on 31 December 2016 and 31 December 2015.

6.2 Equity

6.2.1 Equity attributable to owners of the company

Paid-up and called-up capital

The Company's authorised share capital amounts to EUR 500 million (2015: 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 at 2 March 2017. The final tranche of EUR 410 million in 2020 is conditional and will only be granted if the shareholder considers it necessary taking into account 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 2016, the 2020 FSIRS amounts to EUR -3 million and for the 2021 FSIRS amounts to EUR 8 million.

Hybrid securities

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

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

The hybrid securities comprise of EUR 500 million securities issued in 2010 and bear an optional, cumulative interest rate of 6.655%, payable annually on 1 June of each year. As at 31 December 2016 the unpaid cumulative dividend amounts to EUR 19 million (2015: EUR 19 million), relating to the period 1 June until 31 December and payable on 1 of June 2017.

Dividend distribution
In 2016 a common dividend of EUR 196 million (EUR 980 per share) to our ordinary shareholder was distributed. In consultation with the State of the Netherlands a dividend policy is established and targeting a dividend payout of 35% of the underlying profit for 2016.

We also paid a distribution to the holders of the hybrid securities of EUR 33 million. The income tax benefit relating to the latter distribution was EUR 8 million.

The appropriation of the 2016 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	2016	2015
TenneT Offshore 2. Beteiligungsgesellschaft mbH ("TO2")	Germany	69%	69%
TenneT Offshore 8. Beteiligungsgesellschaft mbH ("TO8")	Germany	63%	63%
TenneT Offshore DolWin3 Beteiligungs GmbH & Co. KG ("TOD3")	Germany	62%	62%
TenneT Offshore DolWin3 Verwaltungs GmbH ("TODV")	Germany	67%	62%

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

(EUR million)	TO2	TO8	TOD3	TODV	APX	Total
At 1 January 2015	**229**	**230**	**385**	**-**	**8**	**852**
Profit attributable to non-controlling interests	13	44	30	-	1	88
Dividends paid	-	-7	-	-	-5	-12
Sale to non-controlling interest	-	-	-	-	-4	-4
Capital contribution	10	22	-	-	-	32
At 31 December 2015	**252**	**289**	**415**	**-**	**-**	**956**
Profit attributable to non-controlling interests	8	32	35	-	-	75
Dividends paid	-2	-35	-	-	-	-37
Capital contribution	6	-	-			6
Capital repayment	-	-	-29	-	-	-29
At 31 December 2016	**264**	**286**	**421**	**-**	**-**	**971**

The non-controlling interest in TODV and TOD3 are held by Copenhagen Infrastructure Partners (CIP), which holds a 67% economic interest in the adjusted (for certain regulatory effects) profits of these companies. The profit from certain regulatory effects are solely allocated to TenneT's equity attributable to the equity holders of the company, consequently the proportion held by CIP in TODV and TOD3 decreased in 2016.

As a result of the sale of APX in 2015 the non-controlling interest in APX is no longer recognised. Further information on this sale is included in note 5.2.

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

Statement of financial position (EUR million)	2016 TO2	2016 TO8	2016 TOD3	2016 TODV
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 financial position (EUR million)	2015 TO2	2015 TO8	2015 TOD3	2015 TODV
Non-current assets	1,167	1,549	978	-
Current assets	75	173	25	-
Non-current liabilities	-760	-1,150	-224	-
Current liabilities	-116	-111	-118	-
Equity	**366**	**461**	**661**	**-**
Attributable to owners of the parent	114	172	246	-
Attributable to non-controlling interests	252	289	415	-

Statement of income (EUR million)	2016 TO2	2016 TO8	2016 TOD3	2016 TODV
Revenue	177	248	118	-
Depreciation and amortisation	-76	-86	-	-
Other expenses	-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	-	-

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

	2016			
(EUR million)	**TO2**	**TO8**	**TOD3**	**TODV**
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	**-**	**-**	**-**	**-**

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

6.3 Borrowings

(EUR million)	Effective interest rate	Maturity	Redemption schedule	2016	2015
1.000% green bond 2016-2026 EUR 500 million	1.1%	Jun-26	At maturity	498	-
1.875% green bond 2016-2036 EUR 500 million	2.0%	Jun-36	At maturity	491	-
1.250% green bond 2016-2033 EUR 500 million	1.4%	Oct-33	At maturity	492	-
1.75% green bond 2015-2027 EUR 500 million	1.8%	Jun-27	At maturity	496	495
0.875% green bond 2015-2021 EUR 500 million	1.0%	Jun-21	At maturity	498	497
3.88% bond 2011-2018 EUR 500 million	3.0%	Feb-18	At maturity	505	510
2.13% bond 2013-2020 EUR 500 million	2.2%	Nov-20	At maturity	498	498
4.50% bond 2010-2022 EUR 500 million	4.6%	Feb-22	At maturity	497	497
4.63% bond 2011-2023 EUR 500 million	4.7%	Feb-23	At maturity	498	497
4.75% bond 2010-2030 EUR 200 million	4.9%	Jun-30	At maturity	195	195
Non-current interest-bearing bonds				**4,668**	**3,189**
0.813% loan 2016-2038 EUR 125 million	0.8%	2019-2038	Linear	125	-
2.74% loan 2012-2023 EUR 150 million	2.7%	Sep-23	At maturity	150	150
4.12% loan 2010-2021 EUR 150 million	4.1%	Jan-21	At maturity	150	150
0.72% loan 2015-2032 EUR 500 million	0.7%	2018-2032	Linear	500	500
0.77% loan 2015-2037 EUR 150 million	0.8%	2018-2037	Linear	150	150
4.44% loan 2010-2023 EUR 140 million	4.4%	2016-2023	Linear	65	75
4.71% loan 2010-2022 EUR 40 million	4.7%	2016-2022	Linear	15	18
4.40% loan 2010-2021 EUR 40 million	4.4%	2016-2021	Linear	13	17
Non-current interest-bearing loans				**1,168**	**1,060**
0.646% green Schuldschein 2016-2022 EUR 77 million	0.7%	May-22	At maturity	77	-
0.989% green Schuldschein 2016-2024 EUR 100 million	1.0%	May-24	At maturity	100	-
1.310% green Schuldschein 2016-2026 EUR 55 million	1.3%	May-26	At maturity	55	-
1.500% green Schuldschein 2016-2028 EUR 50 million	1.5%	May-28	At maturity	50	-
1.750% green Schuldschein 2016-2031 EUR 43 million	1.8%	May-31	At maturity	42	-
1.750% green Schuldschein 2016-2031 EUR 95 million	1.8%	May-31	At maturity	95	-
2.000% green Schuldschein 2016-2036 EUR 80 million	2.0%	May-36	At maturity	80	-
Total non-current interest-bearing Schuldschein				**499**	**-**
Total non-current interest-bearing borrowings				**6,335**	**4,249**
Cash loans	0.0%		At maturity	25	25
EUR commercial papers	-0.3%		At maturity	1,085	353
4.44% loan 2010-2023 EUR 140 million	4.4%	Nov-17	Linear	11	11
4.71% loan 2010-2022 EUR 40 million	4.7%	Nov-17	Linear	3	3
4.40% loan 2010-2021 EUR 40 million	4.4%	May-17	Linear	3	3
Current interest-bearing loans				**1,127**	**395**
Total current interest-bearing borrowings				**1,127**	**395**
Total borrowings				**7,462**	**4,644**

In May 2016 we completed our first green Schuldschein issue. The EUR 500m Schuldschein, a type of privately-placed German debt similar to a bond, was issued in six tranches, as depicted in the table above. Also under our EMTN programme EUR 1.5 billion additional green bonds were issued in 2016.

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

6.4 Cash, cash equivalents and bank overdrafts

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

	2016			2015		
(EUR million)	At free disposal	Not at free disposal	**Total**	At free disposal	Not at free disposal	**Total**
Collateral securities	-	66	66	-	42	42
EEG funds	-	981	981	-	-	-
Cash at bank	157	4	161	3	7	10
Cash and cash equivalents	**157**	**1,051**	**1,208**	**3**	**49**	**52**
Bank overdrafts	-42	-	-42	-17	-	-17
Total cash and cash equivalents used in cash flow statement	**115**	**1,051**	**1,166**	**-14**	**49**	**35**

BNetzA decided that the funds related to EEG can no longer be at our free disposal and should be separated from our cash at bank. The separation of these funds over several bank accounts at different banks was realised in October 2016. 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 the level in the valuation hierarchy the Group's financial instruments are measured at fair value.

		Carrying amount		Fair value		
(EUR million)	Notes	**2016**	2015	**2016**	2015	Hierarchy
Financial liabilities						
Borrowings:						
- Borrowings – bonds	6.3	4,668	3,189	5,124	3,562	Level 1
- Borrowings – other	6.3	2,794	1,455	2,846	1,457	Level 2
Total		**7,462**	**4,644**	**7,970**	**5,019**	

As at 31 December 2016 no instruments carried at fair value are 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 due to the short-term maturities of these instruments.

The following hierarchy by valuation technique are 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.

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

Measurement and classification

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

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

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

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

Financial instruments are included in the balance sheet when we become a party to the instrument's contractual terms. Financial instruments are derecognised from the balance sheet when the contractual rights or obligations have been fulfilled, cancelled or transferred, or they have expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of income. Financial instruments are classified as long-term when they are expected to be realised more than 12 months after the balance sheet date. Other financial instruments are classified as short-term.

Loans and receivables

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

Borrowings

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

Derivative financial instruments and hedge accounting

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

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

6.7 Financial risk management

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 our 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 2016 compared to 2015. 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 have approved the Treasury Statute, which includes principles covering specific areas such as interest rate risk, liquidity risk, the use of derivatives, and the investment of excess liquidity. The use of all ordinary course financial instruments is permitted, provided these are used solely to cover positions. Any speculative use of financial instruments is expressly not authorised. 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 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 interest rate risk is limited. An increase or decrease in interest rates of 2 percentage points would create an increase or decrease of EUR 20 million in our net interest cost (2015: EUR 8 million) results from short-term loans.

Furthermore, there is a risk that the interest payable on liabilities exceeds the interest receivable by TenneT under the prevailing regulatory system. The ACM has set the relevant interest rates which will gradually decrease from 3.58% in 2016 to 2.29% in 2021. In Germany, the actual interest rate is 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 in 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 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 the tariffs for system services. For certain situations, securities in the form of bank guarantees and collaterals are held as protection against the parties with balance responsibility defaulting.

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

The management of energy exchanges, the execution of the Renewable Energy Act in Germany and the maintenance of the energy balance between supply and demand requires handling of large cash flows. Our policies are aimed at minimising the risks associated with the clearing transactions of these cash flows.

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

Financial credit risk

In 2016 financial credit risk arose mainly from our transactions and positions with financial institutions. As at 31 December 2016, the maximum credit risk amounted to EUR 157 million (2015: EUR 3 million). The funds related to EEG (31 December 2016: EUR 981 million) are no longer at our free disposal and are separated from our cash at bank. In accordance with the EEG mechanism, shortfalls are reimbursed in the subsequent 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 arranged. Our policy is that a financial counterparty must have an 'A-' credit rating or higher. At 31 December 2016 we did not have any deposits with third parties (2015: nil).

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

Liquidity risk

Liquidity risk is defined as the risk that we cannot meet our short-term financial obligations. Our objective when managing liquidity is to be able to meet its 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 2016 and 31 December 2015, as explained in note 6.1.

The following maturity schedule presented 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 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**
At 31 December 2015							
Borrowings	6.3	183	266	66	1,606	3,404	5,525
Account- and other payables	5.6	1,698	322	1,834	-	-	3,854
Other financial liabilities		42	-	-	2	-	44
Total		**1,923**	**588**	**1,900**	**1,608**	**3,404**	**9,423**

As shown in the table we have a diversified maturity profile of our borrowings, which reduces any refinancing risks (see also paragraph 6.1).

In order to minimise our exposure to liquidity risk, we have a EUR 2.2 billion committed RCF at our disposal for general corporate purposes. At 31 December 2016, this facility was undrawn. In June 2016 the maturity date of the RCF was extended by one year to July 2021. Furthermore in October 2016 we drew EUR 125 million (last available tranche) from our long-term loan commitments from the EIB. Our short-term uncommitted credit facilities increased from EUR 375 million at 31 December 2015 to EUR 450 million at 31 December 2016. At the balance sheet date EUR 42 million (2015: EUR 17 million) were drawn from these facilities.

The size of the 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 the 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 2017 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.

Refinancing risk

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

In respect of this, 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 framework 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 perform deferred compensation to raise the annual pension module within defined bounds.

We contribute 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 a small number of individual pension commitments.

The pension obligations related to these plans are partly covered by assets primarily a Contractual Trust Agreement (CTA) administrated by 'Helaba Pension Trust e.V.' (Helaba) and reinsurance assets held by 'Versorgungskasse Energie VVaG' (VKE). According to German law, TenneT remains ultimately liable for fulfilling the pension obligations.

Pension scheme 2001

This scheme covers employees who started working on or before 31 December 2007 (or later if the individual employment contract was agreed on or before 1 April 2008). The scheme became effective on 1 January 2001 and absorbs 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. Building on the annual basis for the different levels, 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's.

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.

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

The differences between the plans are limited and refer mainly to the way the internal interest rate and the pensionable income is determined, so disclosure is grouped in the notes below based on weighted averages.

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

(EUR million)	2016	2015
Current service costs (note 3.2.2)	10	10
Net interest costs (note 3.4)	3	2
Net benefit expense	**13**	**12**

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

(EUR million)	2016	2015
Defined benefit obligation	267	214
Fair value of plan assets	-88	-84
Funded status/benefit liability	**179**	**130**

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

(EUR million)	2016	2015
Defined benefit obligation at 1 January	**214**	**206**
Current service costs	10	10
Interest costs	5	4
Benefits paid	-2	-1
Intitial recognition from acquisition	-	4
Re-measurements on obligation	40	-9
Defined benefit obligation at 31 December	**267**	**214**

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

(EUR million)	2016	2015
Fair value of plan assets at 1 January	**84**	**80**
Actual return on plan assets	2	2
Contributions by employer	2	2
Benefits paid	-	-
Fair value of plan assets at 31 December	**88**	**84**

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

	2016	2015
Quoted in active markets:		
Equity instruments	26%	27%
Debt securities	57%	57%
Investment funds	3%	2%
Other	3%	2%
Unquoted investments:		
Equities	2%	3%
Debt securities	1%	2%
Real estate	4%	5%
Cash	4%	2%

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

(EUR million)	2016	2015
Accumulated balance at 1 January	**89**	**98**
Re-measurements during the year	40	-9
Accumulated balance at 31 December	**129**	**89**

The re-measurements are fully related to the actuarial changes arising 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
The valuation encompasses both pension obligations and pension entitlements that are known on the reporting date and economic trend assumptions such as assumptions on salary growth rates and pension increase rates, among others, that are made in order to reflect realistic expectations, as well as variables specific to reporting dates such as discount rates, for example.

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

	2016	2015
Discount rate	1.80%	2.50%
Inflation rate	2.00%	2.00%
Future salary increases	2.50%	2.50%
Future pension increases	1.75%	2.00%

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

(EUR million)	Effect DBO
0.25% change of discount rate	16
0.5% change of salary increase rate	-4
0.5% change of pension increase rate	-
10% change in mortality rate	-6

The sensitivities indicated are computed based on the same methods and assumptions used to determine the present value of the defined benefit obligations. If one of the actuarial assumptions is changed for the purpose of computing the sensitivity of results to changes in that assumption, all other actuarial assumptions are included in the computation unchanged. Please 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 of one another.

We expect to contribute EUR 3 million to our defined benefit pension plans in 2017 and expect the following, undiscounted, benefit payments from the plan:

(EUR million)	2016	2015
Within the next 12 months	3	2
Within 2-5 years	17	15
Within 5-10 years	31	29
More than 10 years	627	612
Total	**678**	**658**

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 2016 was 18.8% of the pensionable salary. In 2017 we expect to contribute EUR 13 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 other than paying 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 was 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 2016 was 91.7% (2015: 98.7%) 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)	2016	2015
Grid-related commitments	1,206	1,047
Guarantees issued	2,743	2,534
Other off-balance sheet commitments	15	23
Total off-balance sheet obligations	**3,964**	**3,604**
Off-balance sheet rights		
Government guarantees received	300	300
Other off-balance sheet rights	85	81
Total off-balance sheet rights	**385**	**381**

7.2.1 Grid related commitments
Grid-related commitments include the unused auction receipts in the Netherlands amounting to EUR 775 million (2015: EUR 831 million). We sell cross-border transport capacity through auctions. In the Netherlands, the received cash is restricted.

7.2.2 Guarantees issued
The majority of the guarantees issued are issued by TenneT Offshore 2. Beteiligungsgesellschaft mbH and TenneT Offshore 8. Beteiligungsgesellschaft mbH to the fiscal agent of the bond holders under the EMTN programme. The guarantee equals the consolidated asset base of the respective companies, based on the German GAAP figures from the previous year. The guarantees are capped at EUR 1,035 million and EUR 1,674 million, respectively and both expire at 31 December 2032.

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

7.2.4 Other
We receive certain claims from our customers, a portion of which relate to refunds of transmission services which we believe are unlikely to prevail in court. 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.

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

Other main related parties are:

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

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.

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 commercial 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. Furthermore, during 2016 Tata started a proceeding at the ACM against TenneT. Mr Fischer is not involved in this proceeding.

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 2016 Mr Veenman's membership of the Supervisory Board Prysmian Holding Netherlands N.V. ended.

The Port of Rotterdam, ARCADIS, Prysmian Holding Netherlands N.V and Tata Steel 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	2016	2015	2016	2015	
B.V. Transportnet Zuid-Holland	Voorburg	Netherlands	100%	100%	100%	100%	*
CertiQ B.V.	Arnhem	Netherlands	100%	100%	100%	100%	
Duvekot Rentmeesters B.V.	Bathmen	Netherlands	100%	100%	100%	100%	
HS Netten Zeeland B.V.	Middelburg	Netherlands	100%	100%	100%	100%	*
Nadine Netwerk B.V.	Arnhem	Netherlands	100%	100%	100%	100%	*
NLink International B.V.	Arnhem	Netherlands	100%	100%	100%	100%	*
NOVEC B.V.	The Hague	Netherlands	100%	100%	100%	100%	
Omroepmasten B.V.	Vianen	Netherlands	100%	100%	100%	100%	
Saranne B.V.	Arnhem	Netherlands	100%	100%	100%	100%	*
Stichting Beheer Doelgelden Landelijk Hoogspanningsnet	Arnhem	Netherlands	N/A	N/A	N/A	N/A	
TenneT Blue B.V.	Arnhem	Netherlands	-	100%	-	100%	*
TenneT Duitsland Coöperatief U.A.	Arnhem	Netherlands	100%	100%	100%	100%	*
Tennet Green B.V.	Arnhem	Netherlands	100%	100%	100%	100%	*

Subsidiary	Legal seat	Country	Voting interest 2016	Voting interest 2015	Economic interest 2016	Economic interest 2015	
TenneT Orange B.V.	Arnhem	Netherlands	100%	100%	100%	100%	
TenneT TSO B.V.	Arnhem	Netherlands	100%	100%	100%	100%	
TenneT TSO Duitsland B.V.	Arnhem	Netherlands	100%	100%	100%	100%	*
TenneT TSO E B.V.	Arnhem	Netherlands	100%	100%	100%	100%	*
TransTenneT B.V.	Arnhem	Netherlands	100%	100%	100%	100%	*
WL Winet B.V.	Maasdijk	Netherlands	100%	100%	100%	100%	
DC Netz BorWin3 GmbH	Bayreuth	Germany	100%	100%	100%	100%	
DC Netz BorWin4 GmbH	Bayreuth	Germany	100%	100%	100%	100%	
DC Netz DolWin4 GmbH	Bayreuth	Germany	100%	100%	100%	100%	
DC Netz GmbH	Bayreuth	Germany	100%	100%	100%	100%	
DC Netz HelWin1 GmbH	Bayreuth	Germany	100%	100%	100%	100%	
DC Netz SylWin2 GmbH	Bayreuth	Germany	100%	100%	100%	100%	
NOVEC GmbH	Emsbüren	Germany	100%	-	100%	-	
TenneT GmbH & Co. KG	Bayreuth	Germany	100%	100%	100%	100%	**
TenneT Offshore 1. Beteiligungsgesellschaft mbH	Bayreuth	Germany	51%	51%	31%	31%	
TenneT Offshore 2. Beteiligungsgesellschaft mbH	Bayreuth	Germany	51%	51%	31%	31%	
TenneT Offshore 4. Beteiligungsgesellschaft mbH	Bayreuth	Germany	100%	100%	100%	100%	
TenneT Offshore 7. Beteiligungsgesellschaft mbH	Bayreuth	Germany	100%	100%	100%	100%	
TenneT Offshore 8. Beteiligungsgesellschaft mbH	Bayreuth	Germany	51%	51%	37%	37%	
TenneT Offshore 9. Beteiligungsgesellschaft mbH	Bayreuth	Germany	51%	51%	37%	37%	
TenneT Offshore Dolwin 3 Beteiligungs GmbH & Co. KG	Bayreuth	Germany	51%	51%	38%	38%	**
TenneT Offshore Dolwin 3 GmbH & Co. KG	Bayreuth	Germany	51%	51%	38%	38%	**
TenneT Offshore Dolwin 3 Verwaltungs GmbH	Bayreuth	Germany	51%	51%	33%	38%	
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.

The consolidation includes the foundation Stichting Beheer Doelgelden Landelijk Hoogspanningsnet. The foundation temporarily manages funds arising from the maintenance of the energy balance and auctioning of capacity by TenneT TSO B.V. 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	2016	2015
Revenue		**-**	**1**
Other operating expenses		-3	-3
Other gains/(losses)	8.4	-	16
Total operating expenses		**-3**	**13**
Share in profit of joint ventures and associates		3	1
Operating profit		**-**	**15**
Finance income	8.2	167	184
Finance expenses	8.3	-149	-128
Finance result		**18**	**56**
Profit before income tax		**18**	**71**
Income tax expense		-34	-33
Profit from subsidiaries	8.4	183	-10
Profit for the year		**167**	**28**

Company statement of financial position

For the year ended 31 December (EUR million)

Assets	Notes	2016	2015
Non-current assets			
Investments in subsidiaries	8.4	5,841	4,977
Investments in joint ventures and associates	8.5	36	36
Other financial assets	8.6	6,200	4,636
Total non-current assets		**12,077**	**9,649**
Current assets			
Other financial assets	8.6	801	464
Account- and other receivables		-	3
Cash and cash equivalents		154	-
Total current assets		**955**	**467**
Total assets		**13,032**	**10,116**

Equity and liabilities	Notes	2016	2015
Equity	8.7		
Paid up and called-up capital		100	100
Share premium		1,380	600
Revaluation reserve		65	75
Reserve for participating interests		5	7
Hedging reserve		5	5
Retained earnings		1,721	1,930
Unappropriated result		134	-5
Equity attributable to ordinary shares		**3,410**	**2,712**
Hybrid securities		520	520
Equity attributable to owners of the company		**3,930**	**3,232**
Non-current liabilities			
Borrowings	8.8	6,335	4,249
Payables to group companies		630	-
Deferred tax liabilities		5	5
Total non-current liabilities		**6,970**	**4,254**
Current liabilities			
Borrowings	8.8	1,127	395
Account- and other payables	8.9	963	2,218
Bank overdrafts		42	17
Total current liabilities		**2,132**	**2,630**
Total equity and liabilities		**13,032**	**10,116**

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 are described.

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.

Due to a change in Dutch law we are no longer allowed to present the profit and loss account in abridged form.

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 are made on terms equivalent to those that prevail in arm's length transactions.

8.3 Finance expenses

The finance expenses mainly relate to the interest on borrowings and credit facilities (2016: EUR 135 million).

8.4 Investments in subsidiaries

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

(EUR million)	2016	2015
At 1 January	**4,977**	**5,175**
Share in result	183	-10
Capital contribution	780	-
Dividends received	-71	-185
Re-measurement of defined benefit pension	-28	7
Net effect on (partial) sale/acquisition of subsidiaries	-	-10
At 31 December	**5,841**	**4,977**

Investments in subsidiaries relate to the legal entities included in the consolidation as disclosed in note 7.4 of the consolidated financial statements. In 2015 a gain resulting from the sale of APX was recorded in the other gains and losses (see note 5.2 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 our investment in HGRT. In 2015, we increased our interest in HGRT to 34% in 2015 (refer to note 5.3.2 of the consolidated financial statements).

8.6 Other financial assets

	2016		2015	
(EUR million)	Current	Non-current	Current	Non-current
Receivable from shareholder	150	630	-	-
Receivables from subsidiaries	650	5,566	462	4,630
Credit facility fees	1	4	2	6
Total	**801**	**6,200**	**464**	**4,636**

The receivables from subsidiaries are mainly related to intercompany loans and the in house bank activities of TenneT Holding B.V. The terms on these receivables are not fixed. The agreed interest rate is Euribor +0.125%. These receivables are unsecured. The movement schedule is as follows:

(EUR million)	2016	2015
At 1 January	**5,100**	**4,162**
Capital contribution	780	-
Additions	1,189	1,499
Repayments	-65	-559
Other movements	-3	-2
At 31 December	**7,001**	**5,100**

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 revaluation of tangible fixed assets. Following the implementation of IFRS on 1 January 2004 for which the fair value exception provided for in IFRS 1 has been applied. The reserve for participating interests relates to HGRT, for which we cannot secure 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 2016 profit is at the free disposal of the General Meeting of Shareholders and has not been recorded in the financial statements. Management has proposed to pay a dividend of EUR 146 million to the shareholder.

8.8 Borrowings

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

8.9 Account- and other payables

(EUR million)	2016	2015
Payables to subsidiaries	854	2,114
Interest payable	91	78
Current income tax payable	15	21
Other payables	3	5
Total	**963**	**2,218**

8.10 Events after reporting period

See note 7.5 of the consolidated financial statements.

Arnhem, 6 March 2017

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
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