Financial statements

Consolidated financial statements

Consolidated statement of income

For the year ended 31 December (EUR million)

	Notes	2018		2017	
Revenue	3.1		**4,269**		**3,976**
Grid expenses	3.2.1	-2,283		-2,111	
Personnel expenses	3.2.2	-214		-191	
Depreciation and amortisation of assets	4.1, 5.1	-700		-629	
Other operating expenses	3.2.3	-235		-205	
Other (gains)/losses	4.1	-26		-9	
Total operating expenses			**-3,458**		**-3,145**
Share in profit of joint ventures and associates	5.3		69		69
Operating profit			**880**		**900**
Finance income		1		9	
Finance expenses	3.3	-182		-179	
Finance result			**-181**		**-170**
Profit before income tax			**699**		**730**
Income tax expense	3.4		-189		-177
Profit for the year			**510**		**553**
Profit attributable to:					
Equity holders of ordinary shares	6.2.1	389		442	
Hybrid securities	6.2.1	31		35	
Owners of the company			**420**		**477**
Non-controlling interests	6.2.2		90		76
Profit for the year			**510**		**553**

Earnings per share attributable to the equity holders of ordinary shares

For the year ended 31 December (EUR per share)

	Notes	2018	2017
Basic and diluted earnings per share	3.5	1,985	2,255

Consolidated statement of comprehensive income

For the year ended 31 December (EUR million)

	Notes	Attributable to equity holders of the company: Hedging reserve	Retained earnings	Unappro-priated result	**Equity attribut-able to ordinary shares**	Hybrid securities	**Equity attribut-able to owners of the company**	**Non-control-ling interest**	**Total equity**
	Notes	6.2.1	6.2.1	6.2.1		6.2.1		6.2.2	
2017									
Other comprehensive income to be reclassified to profit or loss in subsequent years:									
Amortisation of hedges	6.2.1	-1	-	-	-1	-	-1	-	-1
Taxation	3.4	-	-	-	-	-	-	-	-
		-1	**-**	**-**	**-1**	**-**	**-1**	**-**	**-1**
Items not to be reclassified to profit or loss in subsequent years:									
Re-measurement of defined benefit pensions	7.1.1	-	3	-	3	-	3	-	3
Taxation	3.4	-	-1	-	-1	-	-1	-	-1
		-	**2**	**-**	**2**	**-**	**2**	**-**	**2**
Total other comprehensive income 2017		**-1**	**2**	**-**	**1**	**-**	**1**	**-**	**1**
Profit for the year		-	-	442	442	35	477	76	553
Total comprehensive income 2017		**-1**	**2**	**442**	**443**	**35**	**478**	**76**	**554**
2018									
Other comprehensive income to be reclassified to profit or loss in subsequent years:									
Amortisation of hedges	6.2.1	-1	-	-	-1	-	-1	-	-1
Taxation	3.4	-	-	-	-	-	-	-	-
		-1	**-**	**-**	**-1**	**-**	**-1**	**-**	**-1**
Items not to be reclassified to profit or loss in subsequent years:									
Re-measurement of defined benefit pensions	7.1.1	-	5	-	5	-	5	-	5
Taxation	3.4	-	-2	-	-2	-	-2	-	-2
		-	**3**	**-**	**3**	**-**	**3**	**-**	**3**
Total other comprehensive income 2018		**-1**	**3**	**-**	**2**	**-**	**2**	**-**	**2**
Profit for the year		-	-	389	389	31	420	90	510
Total comprehensive income 2018		**-1**	**3**	**389**	**391**	**31**	**422**	**90**	**512**

Consolidated statement of financial position

For the year ended 31 December (EUR million)

Assets	Notes	2018	2017
Non-current assets			
Tangible fixed assets	4.1	16,049	14,530
Intangible assets	5.1	111	98
Investments in joint ventures	5.3.1	529	413
Investments in associates	5.3.2	37	37
Deferred tax assets	3.4	15	5
Other financial assets	5.4	42	311
Total non-current assets		**16,783**	**15,394**
Current assets			
Inventories	5.8	68	78
Account- and other receivables	5.5	2,509	2,434
Income tax receivable	3.4	60	2
Cash and cash equivalents	6.4	1,253	1,329
Total current assets		**3,890**	**3,843**
Assets of disposal group classified as held for sale	5.2	3	-
Total assets		**20,676**	**19,237**

Consolidated statement of financial position

For the year ended 31 December (EUR million)

Equity and liabilities	Notes	2018	2017
Equity			
Equity attributable to ordinary shares	6.2.1	3,964	3,713
Hybrid securities	6.2.1	1,120	1,018
Equity attributable to owners of the company		**5,084**	**4,731**
Non-controlling interests	6.2.2	796	857
Total equity		**5,880**	**5,588**
Non-current liabilities			
Borrowings	6.3	7,964	6,786
Contract liabilities	4.2	308	283
Deferred tax liability	3.4	124	222
Provisions	5.7	774	697
Net employee defined benefit liabilities	7.1.1	208	186
Other liabilities		3	2
Total non-current liabilities		**9,381**	**8,176**
Current liabilities			
Borrowings	6.3	756	917
Contract liabilities	4.2	3	3
Income tax payable	3.4	84	7
Provisions	5.7	86	92
Other financial liabilities		71	61
Account- and other payables	5.6	4,414	4,354
Bank overdrafts	6.4	-	39
Total current liabilities		**5,414**	**5,473**
Liabilities of disposal group classified as held for sale	5.2	1	-
Total equity and liabilities		**20,676**	**19,237**

Consolidated statement of changes in equity

For the year ended 31 December (EUR million)

	Notes	Attributable to equity holders of the company								Non-controlling interest	Total equity
		Paid-up and called-up capital	Share premium reserve	Hedging reserve	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 2017		**100**	**1,380**	**5**	**1,791**	**134**	**3,410**	**520**	**3,930**	**971**	**4,901**
Profit for the year		-	-	-	-	442	442	35	477	76	553
Total other comprehensive income		-	-	-1	2	-	1	-	1	-	1
Total comprehensive income		**-**	**-**	**-1**	**2**	**442**	**443**	**35**	**478**	**76**	**554**
Dividends paid	6.2.1	-	-	-	-	-146	-146	-	-146	-43	-189
Capital contribution	6.2.1	-	-	-	-	-	-	-	-	15	15
Capital repayment	6.2.1	-	-	-	-	-	-	-500	-500	-162	-662
Issue of hybrid securities	6.2.1	-	-	-	-3	-	-3	1,000	997	-	997
Distribution on hybrid securities	6.2.1	-	-	-	-	-	-	-37	-37	-	-37
Tax on distribution on hybrid securities	6.2.1	-	-	-	-	9	9	-	9	-	9
Appropriation remaining prior year result		-	-	-	-3	3	-	-	-	-	-
At 31 December 2017		**100**	**1,380**	**4**	**1,787**	**442**	**3,713**	**1,018**	**4,731**	**857**	**5,588**
Profit for the year		-	-	-	-	389	389	31	420	90	510
Total other comprehensive income		-	-	-1	3	-	2	-	2	-	2
Total comprehensive income		**-**	**-**	**-1**	**3**	**389**	**391**	**31**	**422**	**90**	**512**
Dividends paid	6.2.1	-	-	-	-	-147	-147	-	-147	-79	-226
Capital repayment	6.2.1	-	-	-	-	-	-	-	-	-72	-72
Transition effect IFRS 9	1.2	-	-	-	-1	-	-1		-1		-1
Issue of hybrid securities	6.2.1	-	-	-	-	-	-	101	101	-	101
Distribution on hybrid securities	6.2.1	-	-	-	-	-	-	-30	-30	-	-30
Tax on distribution on hybrid securities	6.2.1	-	-	-	-	8	8	-	8	-	8
Appropriation remaining prior year result		-	-	-	303	-303	-	-	-	-	-
At 31 December 2018		**100**	**1,380**	**3**	**2,092**	**389**	**3,964**	**1,120**	**5,084**	**796**	**5,880**

Consolidated statement of cash flows

For the year ended 31 December (EUR million)

	Notes	2018		2017	
Operational activities					
Operating profit			**880**		**900**
Non-cash adjustments to reconcile profit to net cash flows:					
Depreciation, amortisation and impairment of assets	4.1, 5.1	700		629	
Result on disposal of assets	4.1	22		-7	
Gain on acquistion of subsidiary	5.2	-		-3	
Share in profit of joint ventures and associates	5.3	-69		-72	
Dividends received from joint ventures and associates	5.3	47		54	
Movements in provisions and other (financial) liabilities and assets		-14		-66	
			686		**535**
Working capital adjustments excluding EEG working capital:					
(Increase)/decrease in account- and other receivables	5.5	32		-274	
(Increase)/decrease in inventories		10		-4	
Increase/(decrease) in account- and other payables	5.6	82		379	
Increase/(decrease) in contract liabilities	5.3	25		2	
Increase/(decrease) in current financial liabilities		-23		7	
			126		**110**
Income tax paid (net)			-239		-181
Net cash flows from operating activities excluding EEG working capital			**1,453**		**1,364**
EEG working capital adjustments:					
(Increase)/decrease in EEG receivables	5.5	73		-94	
(Increase)/decrease EEG deposits > 3 months	5.5	-250		-	
Increase/(decrease) in EEG payables	5.6	137		325	
			-40		**231**
Net cash flows from operating activities			**1,413**		**1,595**
Investing activities					
Purchase of tangible and intangible fixed assets	4.1, 5.1	-2,324		-1,762	
Acquisition of a subsidiary, net of cash acquired	5.2	-		-5	
Capital contribution to joint ventures and associates	5.3	-92		-72	
Interest received		1		2	
Net cash flows used in investing activities			**-2,415**		**-1,837**
Financing activities					
Net financing					
Proceeds from borrowings	6.3	1,930		1,370	
Repayment of borrowings	6.3	-917		-1,127	
			1,013		**243**

Continuation >

< Continued

Consolidated statement of cash flows

For the year ended 31 December (EUR million)

	Notes	2018		2017	
Other financing activities					
Interest paid		-170		-151	
Dividends paid to ordinary shareholders of the company	6.2.1	-147		-146	
Proceeds from capital contributions	6.2.1	350		150	
Repayment of hybrid securities	6.2.1	-		-500	
Proceeds from issue of hybrid securities	6.2.1	100		997	
Distribution on hybrid securities	6.2.1	-30		-37	
Dividends paid and capital repayments to non-controlling interests	6.2.2	-151		-205	
Proceeds from capital contributions by non-controlling interests	6.2.2	-		15	
			-48		**123**
Net cash flows from financing activities			**965**		**366**
Net change in cash and cash equivalents			**-37**		**124**
Cash and cash equivalents at 31 December	6.4	1,253		1,290	
Cash and cash equivalents at 1 January	6.4	1,290		1,166	
			-37		**124**

Notes to the consolidated financial statements

We are continuously improving our financial reporting to make it more relevant and understandable to our stakeholders. These financial statements focus on the key (financial) topics for 2018. Like last 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 during 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 2018 were prepared and authorised by our Executive Board for issue in accordance with a resolution of the Supervisory Board on 18 February 2019.

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 if any which have been measured at fair value. They are presented in euros and all values are rounded to the nearest million (EUR 000,000), except when otherwise indicated.

Significant new and amended standards adopted by the Group

TenneT has not adopted any standard, interpretation or amendment that has been issued but is not yet effective.

TenneT is applying IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments for the first time in 2018. The nature and impact of each amendment is described below.

The new 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.

Based on an assessment encompassing interviews within several internal departments and review of existing contracts, we have concluded that the standard has no impact on our financial statements.

IFRS 9 Financial instruments replaces IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting. TenneT has applied IFRS 9 retrospectively, with the initial application date of 1 January 2018 without restating the comparative financial statements.

Under IFRS 9, debt financial instruments are subsequently measured at fair value through profit & loss (FVPL), amortised cost, or fair value through other comprehensive income (FVOCI). The classification for financial assets is based on two criteria: TenneT's business model for managing the assets; and whether the instruments` contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding (the 'SPPI criterion'). TenneT's business model involves collecting contractual cash flows. TenneT assessed if financial instruments are SPPI. This assessment is referred to as the SPPI test and is performed at an instrument level. TenneT concluded all financial instruments are SPPI. As a result of the above assessments the measurement of TenneT's financial instruments remains unchanged at amortised cost.

The adoption of IFRS 9 has changed TenneT's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. ECL is based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. TenneT applied the simplified approach and records lifetime expected losses on all trade receivables. TenneT has determined that, the loss allowance increased with EUR 1 million in 2018 due to the adoption of IFRS 9.

IFRS standards issued but not yet effective and adopted by the Group
A limited number of new standards, amendments to standards and interpretations, and annual improvement cycles have been issued but are not effective for the financial year beginning 1 January 2018. Below we describe the potential impact of IFRS 16, which will have a material impact on our financial statements. Other changes to standards which we expect to have no material impact on our financial statements are not further described.

IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments and an asset representing the right to use the underlying asset during the lease term. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will also be required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

IFRS 16 requires lessees and lessors to make more extensive disclosures than under IAS 17.

TenneT will adopt IFRS 16 retrospectively with the cumulative effect of initially applying the Standard recognised at the date of initial application, as of 1 January 2019. TenneT elects to use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value.

TenneT elects to measure the right-of-use asset for an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position immediately before the date of initial application. TenneT elects not to apply IFRS 16 for contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4.

The estimated impact of the adoption of IFRS 16 is based on assessments undertaken to date. The impact on the financial position as at 1 January 2019 is expected to be as follows:

(EUR million)	1 January 2019
Asset increase	384
Liability increase	-384
Retained earnings	**-**

Based on our IFRS 16 leases as of 1 January 2019 the IFRS 16 implementation is expected to have the following impact for 2019:

(EUR million)	1 January 2019
Depreciation expense	131
Other operating expense	-132
Operating profit	**1**
Finance costs	1
Income tax expense	
Profit for the year	**-**

Due to the adoption of IFRS 16, the Group's operating profit will improve, offset by an increase in finance expense. This is due to the change in the accounting for expenses of leases that were classified as operating leases under IAS 17. There will be no impact on the segment information other than already disclosed above.

Annual Improvements Cycle - 2015-2017

IAS 12 Income Taxes – Income tax consequences of payments on financial instruments classified as equity: The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity recognised the originating transaction or event that generated the distributable profits giving rise to the dividend. TenneT applies the amendments for annual reporting periods beginning on or after 1 January 2019. When an entity first applies the amendments, it applies them to the income tax consequences of dividends recognised on or after the beginning of the earliest comparative period. The impact for TenneT will be a reclassification of "tax on distribution on hybrid securities" from the consolidated statement of equity to the consolidated statement of income.

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 2018. A list of the legal entities included in the consolidation is included in note 7.4.
Subsidiaries are consolidated from the date of acquisition, constituting the date on which control is obtained, and continue to be consolidated until the date when such control ceases. The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All intercompany balances, transactions, unrealised gains and losses resulting from intercompany transactions and dividends are eliminated in full in consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If we cease to have control of a subsidiary, we derecognise the subsidiary's assets (including goodwill) and liabilities, with any non-controlling interest and the cumulative translation differences recorded in equity. Furthermore, the fair value of the consideration received, the fair value of any investment retained and any surplus or deficit in profit or loss are recognised. Acquisitions are accounted for using the acquisition method, where the purchase price is allocated to the identifiable assets acquired and liabilities assumed on a fair value basis and the remainder recognised as goodwill.

1.4 Significant accounting judgements, estimates and assumptions

The preparation of financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates. Such estimates are assessed continuously on the basis of previous results and experience, consultations with experts, trends, prognoses and other methods which we deem appropriate in each individual case. Significant items containing estimates and assumptions are as follows:

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

1.5 Foreign currency

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

2. Segment information

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

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

2.1 Segment analysis

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

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

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

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

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 set at arm's length in a manner similar to transactions with third parties. These intercompany transactions are eliminated in the consolidation.

There are two customers in the German segment that have revenues that are more than 10% of our total revenue. Revenue from one customer amounted to EUR 789 million (2017: EUR 731 million). Revenue from the other customer amounted to EUR 632 million (2017: EUR 612 million).

	2018					2017				
(EUR million)	**Revenue**	**EBIT**	**Investments**	**Assets**	**Liabilities**	Revenue	EBIT	Investments	Assets	Liabilities
TSO Netherlands	945	121	876	6,165	3,646	838	190	735	5,781	3,323
TSO Germany	3,230	644	1,370	16,067	11,135	3,122	651	1,037	15,519	10,669
Non-regulated activities	36	43	7	684	159	35	59	2	1,026	137
	4,211	**808**	**2,253**	**22,916**	**14,940**	**3,995**	**900**	**1,774**	**22,326**	**14,129**
Eliminations and adjustments	-35	-2	-	-1,133	1,143	-47	-3	-	-1,914	814
Consolidated underlying information	**4,176**	**806**	**2,253**	**21,783**	**16,083**	**3,948**	**897**	**1,774**	**20,412**	**14,943**

For an analysis of the underlying results see the 'Financial' section of 'Our performance in 2018' section of the integrated annual report.

2.2 ⓘ Accounting policies applied for underlying financial information

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

Matching is achieved by recognising regulatory deferral accounts. The key requirement for the recognition of regulatory deferral accounts is that an existing regulatory framework must be in place that permits the future reimbursement or requires the future settlement of regulated assets or liabilities respectively. Consequently, a regulated asset is recognised in underlying financial information in respect of permitted reimbursements of current year expenses in future years tariffs. Vice versa, a regulated liability is recognised in underlying financial information in respect of required settlements (i.e. repayments) of current year revenues through future tariffs.

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

2.3 Regulatory deferral accounts: reconciliation to IFRS figures

The difference between 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, auctions receipts, and the measurement of tangible fixed assets. In our IFRS financial statements, these are recognised as revenue when realised. In the underlying financial information these are recognised when invoiced.

These differences also result in different deferred tax balances in underlying financial information compared to IFRS reported figures. No other differences between underlying financial information and IFRS exist.

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

2018 (EUR million)	Revenue	EBIT	Assets	Liabilities	Recovery/ reversal period (years)
Consolidated underlying information	**4,176**	**806**	**21,783**	**16,083**	
To be settled in tariffs	-82	-126	-785	-140	0 - 5
Auction receipts	156	156	-	-852	0 - 30
Investment contributions	-10	-6	-	-249	0 - 30
Maintenance of the energy balance	29	29	-	-41	0 - 1
Difference in tangible fixed assets	-	21	-300	-	0 - 30
Effect on deferred tax balances	-	-	-22	-5	0 - 30
Consolidated IFRS financial statements	**4,269**	**880**	**20,676**	**14,796**	

2017 (EUR million)	Revenue	EBIT	Assets	Liabilities	Recovery/ reversal period (years)
Consolidated underlying information	**3,948**	**897**	**20,412**	**14,943**	
To be settled in tariffs	-116	-116	-848	-92	0 - 5
Auction receipts	127	80	-	-910	0 - 30
Investment contributions	-10	-10	-	-259	0 - 31
Maintenance of the energy balance	27	27	-	-35	0 - 1
Difference in tangible fixed assets	-	22	-322	-	0 - 31
Effect on deferred tax balances	-	-	-5	2	0 - 31
Consolidated IFRS financial statements	**3,976**	**900**	**19,237**	**13,649**	

As the adjustments for reconciling consolidated underlying revenue to consolidated IFRS revenue are the same for the reconciliation of EBIT, no further information is included in this respect in the above tables.

To be settled in tariffs

Revenue surpluses and deficits resulting from differences between expected (ex ante) and realised (ex post) electricity transmission volumes are incorporated in the tariffs of subsequent years in both, Germany and the Netherlands. In the underlying financial information, these surpluses and deficits are recorded as assets and liabilities, respectively, in the statement of financial position under ‘to be settled in tariffs’.

Auction receipts & investment contributions

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

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

Maintenance of the energy balance

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

Differences in tangible fixed assets

Differences in tangible fixed assets occur due to the difference in accounting treatment of the regulatory deferral accounts and the related cash flows in order to determine the economic useful life and recoverable amount of the assets resulting from acquisitions and used for impairment analysis.

3. Results for the year

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

3.1 Revenue

The disaggregated revenue are presented below.

	2018			
(EUR million)	TSO NL	TSO Germany	Non-regulated	**Total**
Connection and transmission services	594	2,467	-	3,061
Maintenance of energy balance	72	61	-	133
Operation of energy exchanges	102	62	-	164
Offshore balancing	-	798	-	798
Other	17	60	36	113
Inter-segment	19	16	-	35
Total revenue IFRS	**804**	**3,464**	**36**	**4,304**
Inter-segment adjustments and eliminations	-19	-16	-	-35
Total revenue from contracts with customers IFRS	**785**	**3,448**	**36**	**4,269**

	2017			
(EUR million)	TSO NL	TSO Germany	Non-regulated	**Total**
Connection and transmission services	627	2,278	-	2,905
Maintenance of energy balance	58	49	-	107
Operation of energy exchanges	88	48	-	136
Offshore balancing	-	737	-	737
Other	13	43	35	91
Inter-segment	30	17	-	47
Total revenue IFRS	**816**	**3,172**	**35**	**4,023**
Inter-segment adjustments and eliminations	-30	-17	-	-47
Total revenue from contracts with customers IFRS	**786**	**3,155**	**35**	**3,976**

Set out below, the reconciliation of revenue from contracts with customers based on IFRS with the amounts disclosed in the segment information (Note 2) based on underlying financial information:

	2018			
(EUR million)	TSO NL	TSO Germany	Non-regulated	**Total**
Total revenue	**804**	**3,464**	**36**	**4,304**
To be settled in tariffs	255	-173	-	82
Investment contributions	10	-	-	10
Auction receipts	-96	-60	-	-156
Maintenance of the energy balance	-28	-1	-	-29
Total revenue underlying	**945**	**3,230**	**36**	**4,211**
Inter-segment adjustments and eliminations	-19	-16	-	-35
Total revenue from contracts with customers underlying	**926**	**3,214**	**36**	**4,176**

	2017			
(EUR million)	TSO NL	TSO Germany	Non-regulated	Total
Total revenue	**816**	**3,172**	**35**	**4,023**
To be settled in tariffs	120	-4	-	116
Investment contributions	10	-	-	10
Auction receipts	-82	-45	-	-127
Maintenance of the energy balance	-26	-1	-	-27
Total revenue underlying	**838**	**3,122**	**35**	**3,995**
Inter-segment adjustments and eliminations	-30	-17	-	-47
Total revenue from contracts with customers underlying	**808**	**3,105**	**35**	**3,948**

3.1.1 Connection and transmission services

Materially, all revenue from connection and transmission is regulated by the ACM in the Netherlands and by the BNetzA in Germany. Revenue from connection and transmission services includes revenue from services provided to regional grid operators and industrial clients (such as resolution of transmission restrictions, congestion management and reactive power management). Revenue increased mainly due to a higher asset base.

3.1.2 Maintenance of the energy balance

We are responsible to ensure that electricity supply and demand is in balance at all times (i.e. alternating current frequency in the power grid must be at 50 Hz continuously). If this balance is significantly disrupted, it may result in a power outage or even a black-out, depending on the length and severity of the imbalance. To ensure this balance, we contract and deploy (among others) reserve and emergency capacity to compensate unexpected fluctuations in supply and demand. The proceeds from maintaining this energy balance (e.g. imbalance settlements) fluctuate considerably and are refunded through regulated tariffs in both the Netherlands and Germany in subsequent years.

3.1.3 Operation of energy exchanges

This amount includes revenues resulting from the auctioning of cross-border (electricity transmission “interconnection”) capacity.

3.1.4 Offshore balancing

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

3.1.5 ⓘ Accounting policy with respect to revenue

Revenue primarily represents the sales value derived from the connection and transmission of electricity together with the sales value derived from the provision of other services to customers during the year. Revenue from contracts with customers is recognised when control of the services is transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

Revenues are from contracts with a single performance obligation. The assessment of unbilled connection and transmission services supplied to customers between the date of the last meter reading and year-end is subject to significant judgement. This assessment is primarily based on expected consumption and weather patterns.

If revenue received or receivable exceeds the maximum annual amount as determined by the regulator, ACM or BNetzA, an adjustment will be made to future tariffs to reflect this over-recovery. Under IFRS, no liability is recognised since this adjustment relates to the provision of future services. Similarly, no asset is recognised when a regulator permits increases to be made to future tariffs in respect of under-recovery.

3.2 Operating expenses

3.2.1 Grid expenses

(EUR million)	2018	2017
System services	1,437	1,368
Connection and transmission services	285	285
Maintenance of energy balance	97	79
Maintaining and operating transmission grids	470	378
Other	-6	1
Total	**2,283**	**2,111**

In 2018, the grid expenses increased proportionally in line with the increase in revenue.

3.2.2 Personnel expenses

(EUR million)	2018	2017
Salaries	259	240
Social security contributions	36	33
Pension charges defined benefit plans	23	11
Pension charges other plans	16	15
Other personnel expenses	23	18
Capitalised costs for tangible fixed assets	-143	-126
Total	**214**	**191**

Average workforce in FTEs (internal employees only)	3,253	3,061
Average workforce in FTEs employed in the Netherlands	1,443	1,304

Key management remuneration

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

Supervisory Board (EUR thousand)	Fixed	Committee fee	Total
2018	**97**	**48**	**145**
2017	125	46	171

Executive Board (EUR thousand)	Fixed	Variable	Pension cost	Termination benefit	Total
2018	**1,586**	**248**	**687** [1]	**600**	**3,121**
2017	1,802	326	478	-	2,606

[1] This includes a tax amount of EUR 241,000 paid to the Dutch tax authorities for the contractual pre-pension plan of the former CEO as a result of a change in the tax regime.

The aggregate Executive Board remuneration comprises remuneration of statutory directors of EUR 1,803 thousand (2017: EUR 1,915 thousand) and remuneration of non-statutory directors of EUR 1,318 thousand (2017: EUR 691 thousand). Pension remuneration equals (i) the contributions payable to the defined contribution plan for service rendered in the period or (ii), for defined benefit plans, the current service cost and, when applicable, past service cost.

3.2.3 Other operating expenses

(EUR million)	2018	2017
Accommodation and office expenses	89	76
Consultancy expenses	21	24
Hiring of temporary personnel	54	46
Travel and living expenses	15	14
Other expenses	56	45
Total	**235**	**205**

Other expenses in 2017 included a partial release of the provision for compensation payable to offshore wind farm (OWF) operators in respect of possible interruptions and or delays in offshore high-voltage connections. For further details see note 5.7.3.

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

(EUR thousand)	2018	2017
Audit of the financial statements		
Ernst & Young Accountants LLP	667	596
Other Ernst & Young firms	589	556
Total audit of the financial statements	**1,256**	**1,152**
Other assurance services		
Ernst & Young Accountants LLP	224	224
Other Ernst & Young firms	182	206
Total other assurance services	**406**	**430**
Total assurance services	**1,662**	**1,582**
Tax consultancy (other Ernst & Young firms)	-	27
Other services (other Ernst & Young firms)	40	24
Total other services	**40**	**51**
Total EY network fees	**1,702**	**1,633**

3.3 Finance expenses

(EUR million)	2018	2017
Interest on borrowings and credit facilities	152	154
Capitalised interest on assets under construction	-8	-8
Interest on provisions	18	19
Interest on defined benefit pensions	4	3
Other finance expenses	16	11
Total	**182**	**179**

3.4 Income tax

We strive to comply with all applicable tax legislation in a socially responsible manner, maintaining among the highest levels of transparency, quality and integrity. Management responsibility and oversight of our tax strategy lies with our ‘Chief Financial Officer’ (CFO), our Senior Manager Corporate Financial Control and our Corporate Tax Manager who monitor our tax activities and report to the Executive Board and the Audit, Risk and Compliance Committee.

Our tax strategy is fully consistent with our corporate strategy. Building a transparent relationship with tax authorities based on mutual trust is an integral part of this strategy. We have built and are continuously improving our tax control framework to be 'in control' of tax risks and to allow the company to demonstrate to all its stakeholders, including the tax authorities, that the company fully complies with all applicable laws and regulations.

Income tax is payable in the Netherlands and Germany. In the Netherlands, we entered into a so called 'horizontal monitoring agreement' with the Dutch tax authorities. Based on transparency and mutual trust, this agreement ensures that tax positions are fully disclosed and agreed on in advance, as a result of which generally no tax audits are performed by the Dutch tax authorities. All corporate income tax returns in the Netherlands have been filed up to and including 2016. Corporate income tax paid in the Netherlands in 2018 amounted to EUR 72 million.

In Germany, corporate income tax and trade tax returns for all German entities have been filed up to and including fiscal year 2017. In 2017, the German tax authorities have started a tax audit for the fiscal years 2013 to 2016 relating to all German entities. In 2018, we paid EUR 167 million of corporate income tax in Germany.

The key components of income tax expense are:

Consolidated income statement (EUR million)	2018	2017
Current income tax charge	299	210
Deferred tax:	-110	-33
Income tax expense reported in the income statement	**189**	**177**

Consolidated statement of comprehensive income (EUR million)	2018	2017
Effect of re-measurement of defined benefit pensions	-2	-1
Income tax charged directly to other comprehensive income	**-2**	**-1**

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% applied, while in Germany, on average, a marginal statutory corporate income tax rate of 29.4% applied (including trade tax levied by municipalities or 'Gewerbesteuer'). Reconciliation between tax expense and the accounting profit multiplied by a statutory income tax rate of 25% is as follows:

(EUR million)	2018	2017
Profit before income tax	**699**	**730**
Statutory income tax rate of 25% (The Netherlands, 2017: 25%)	175	183
Effect of higher tax rate in Germany	30	24
Effect future tax rate change in the Netherlands	-11	-
Deferred and current tax differences	9	-8
Non-deductible interest	1	-12
Non-deductible/taxable mainly participation exemption effect	-5	-6
Tax paid by third parties	-10	-4
At the effective income tax rate of 27% (2017: 24%)	**189**	**177**

The main reason for the higher effective tax rate is the effect of the higher tax rate in Germany. The remeasurement of the deferred tax position due to the enacted rate change in the Netherlands is partly offset by the impact of the German tax audit on the German current and deferred tax differences. In 2018 the TenneT Group had less deductible interest in comparison to 2017, the reason for this difference was the use of an interest carry forward in 2017 in Germany. The increase of the tax paid by third parties relates to tax paid by the investors in German entities due to increase of profit before tax.

Deferred tax relates to the following:

(EUR million)	Statement of financial position 2018	Statement of financial position 2017	Statement of income 2018	Statement of income 2017
Auction receipts	-182	-215	-32	-32
Investment contributions	-62	-73	-12	-
Tariffs to be settled	18	8	-10	-3
Accelerated depreciation for tax purposes	-157	-165	-8	-11
Provisions	242	224	-19	-36
Profit allocation to hybrid	-5	-4	-	-
Other	37	8	-29	49
Net deferred tax assets/(liabilities)	**-109**	**-217**		
Deferred tax expense/(income)			**-110**	**-33**

Deferred taxes are presented in the statement of financial position as follows:

(EUR million)	2018	2017
Deferred tax assets	15	5
Deferred tax liabilities	-124	-222
Deferred tax, net	**-109**	**-217**

Movements of deferred tax positions are set out below.

(EUR million)	2018	2017
At 1 January	**-217**	**-249**
Tax expense during the period recognised in statement of income	110	33
Tax income during the period recognised in other comprehensive income	-2	-1
At 31 December	**-109**	**-217**

The Group did not have any tax loss carry forwards as of 31 December 2018.

ⓘ Accounting policy

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

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

Deferred tax is recognised using the liability method with respect to 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. This is assessed annually. 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.

Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

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

3.5 Earnings per share

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

(EUR million)	**2018**	2017
Profit for the year attributable to ordinary shareholder of the company	420	477
Allocation to hybrid securities	-31	-35
Tax effect on allocation to hybrid securities	8	9
Profit for the year attributable to equity holders of the company adjusted for the allocation to hybrid securities	**397**	**451**
Weighted average number of ordinary shares in issue (in thousands)	200	200

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

We own a significant physical asset base to operate our transmission grid. To solve transmission bottlenecks and ensure grid stability we continue to invest in our network. To accommodate expanding renewable energy sources sizable further onshore and offshore grid investments in Germany and the Netherlands are necessary in the upcoming years. This section focuses on our tangible fixed assets and related commitments which form the backbone 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 2017	**6,486**	**5,290**	**676**	**3,736**	**16,188**
Additions	133	119	20	1,491	1,763
Initial recognition of acquired companies (note 5.2)	-	-	11	-	11
Transfers	302	408	7	-717	-
Changes in estimations (note 5.7.1)	17	24	-	-	41
Disposals	-8	-	-	-	-8
At 31 December 2017	**6,930**	**5,841**	**714**	**4,510**	**17,995**
Additions	206	121	87	1,798	2,212
Transfers	1,198	733	83	-2,014	-
Changes in estimations (note 5.7.1)	1	4	-	-	5
Disposals	-4	-	-2	-22	-28
At 31 December 2018	**8,331**	**6,699**	**882**	**4,272**	**20,184**
Depreciation and impairment					
At 1 January 2017	**1,346**	**1,348**	**173**	**-**	**2,867**
Depreciation for the year	320	233	48	-	601
Disposals	-3	-	-	-	-3
At 31 December 2017	**1,663**	**1,581**	**221**	**-**	**3,465**
Depreciation for the year	358	262	52	-	672
Disposals	-1	-	-1	-	-2
At 31 December 2018	**2,020**	**1,843**	**272**	**-**	**4,135**
Net book value:					
At 1 January 2017	5,140	3,942	503	3,736	13,321
At 31 December 2017	5,267	4,260	493	4,510	14,530
At 31 December 2018	6,311	4,856	610	4,272	16,049

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

TenneT has decided to terminate the Wintrack II contract with Heijmans-Europoles B.V. (HEP). The contracts concern the projects South-West 380 kV West and North-West 380 kV, and involve the design and installation of the high-voltage pylons, including civil engineering work for the connections. This decision has led to a write-off of assets under construction with an impact of EUR 22 million that is presented in other gains/losses.

In 2018 the discount rate for the decommissioning provision is 2.9% (2017: 3.0%) for OWF connections and is 2.2% (2017: 2.2%) for onshore connections (see note 5.7.5). Since the main part of the decommissioning provision was recognised as part of the carrying value of the related asset, changes in discount and inflation rate, if any, directly impact this carrying value.

The amount of borrowing costs capitalised during 2018 is disclosed in note 3.3. The effective interest rate used to determine the amount of borrowing costs capitalised was 2.2% (2017: 2.2%).

Assets under construction and investments

	2018		2017	
(EUR million)	Investments	Assets under construction	Investments	Assets under construction
TSO Netherlands	841	1,785	728	1,328
TSO Germany	1,364	2,487	1,033	3,182
Non-regulated activities	7	-	2	-
Total	**2,212**	**4,272**	**1,763**	**4,510**

ⓘ 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 that 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 various asset categories are assumed:

Estimated useful lives tangible fixed assets	Years
Substations	
Switches and offshore converter stations	20-35
Security and control equipment	10-20
Power transformers	20-35
Capacitor banks	20-35
Telecommunications equipment	10-20
Connections	
Pylons/lines	35-40
Cables (subsea and underground)	20-40
Other	
Office buildings	40-50
Office IT equipment	3-5
Process automation facilities	5
Other company assets	5-10

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

4.2 Contract liabilities

The majority of the contract liabilities relates to investment contributions received from certain third parties for the construction of a new substation, a grid connection or increased connection capacity (EUR 305 million; 2017: EUR 281 million). This was due to received contributions of EUR 38 million minus EUR 14 million amortisation. The current part of the investment contributions amounts to EUR 3 million (2017: EUR 3 million) and is presented separately in the statement of financial position.

Accounting policy

Contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when TenneT performs under the contract. At initial recognition contributions received from third parties are measured at fair value, presented as contract liabilities ('investment contributions') and are subsequently 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)	2018	2017
Off-balance sheet rights		
Bank guarantees received	1,556	1,380
Comfort letters received	693	682
Total	**2,249**	**2,062**
Off-balance commitments		
Capital commitments	3,611	3,705
Comfort letters issued	775	775
Operating lease commitments	384	283
Total	**4,770**	**4,763**

The expected cash flows for capital commitments and other operating lease commitments are equal to the amounts in the above table. For comfort letters issued no cash flows are expected.

The probability of certain off-balance sheet commitments was reassessed from remote to low. This resulted in an increase of comfort letter issued. Based on this assessment the comparative figures for the off-balance sheet commitment was corrected from EUR 4 million to EUR 775 million.

4.3.1 Bank guarantees received

Bank guarantees received include guarantees for investment projects.

4.3.2 Comfort letters received

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

4.3.3 Capital commitments

Capital commitments relate to commitments entered into with regard to the purchase of tangible fixed assets. Approximately EUR 1,974 million of capital commitments are payable within the next 12 months (2017: EUR 1,401 million).

4.3.4 Operating lease commitments

In 2018 the operating lease expenses amount to EUR 159 million (2017: EUR 87 million). The majority of operational lease commitments are for power plants. There are also operational leases for offices, telecom, ground and cars. Future minimum lease payments under non-cancellable operating leases are as follows:

(EUR million)	2018	2017
Within the next 12 months	133	93
Whitin 2-5 years	163	149
More than 5 years	88	41
Total	**384**	**283**

ⓘ Accounting policy

Leases in which not substantially all risks and rewards of ownership are transferred to the lessee 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 substantially all risks and rewards of ownership are transferred to the lessee are classified as financial leases.

5. Other invested capital including working capital and provisions

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

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

5.1 Intangible assets

(EUR million)	Goodwill	Software	Customer contracts	Other intangible assets	Intangible assets under construction	Total
Cost						
At 1 January 2017	**31**	**193**	**64**	**23**	**3**	**314**
Additions	-	2	-	1	8	11
Initial recognition of acquired companies (note 5.2)	-	-	-	6	-	6
Transfers	-	7	-	-	-7	-
At 31 December 2017	**31**	**202**	**64**	**30**	**4**	**331**
Additions	-	6	-	-	35	41
Transfers	-	36	-	-	-36	-
At 31 December 2018	**31**	**244**	**64**	**30**	**3**	**372**
Amortisation and impairment						
At 1 January 2017	**-**	**159**	**38**	**8**	**-**	**205**
Amortisation for the year	-	21	5	2	-	28
At 31 December 2017	**-**	**180**	**43**	**10**	**-**	**233**
Amortisation for the year	-	20	5	3	-	28
At 31 December 2018	**-**	**200**	**48**	**13**	**-**	**261**
Net book value:						
At 1 January 2017	31	34	26	15	3	109
At 31 December 2017	31	22	21	20	4	98
At 31 December 2018	31	44	16	17	3	111

At 31 December 2018 and 2017, goodwill was allocated to the following cash generating units (CGUs): TSO Netherlands (EUR 3 million), TSO Germany (EUR 24 million) and non-regulated activities (EUR 4 million). At year-end all assets under construction are presented under the tangible fixed assets. When an asset is finalised it is determined what part relates to tangible fixed assets and intangible assets. At year-end an amount of approximately EUR 26 million (2017: EUR 39 million) of the assets under construction relates to the intangible assets.

Accounting policy

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

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

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

Key estimates and assumptions

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

Intangible assets, with the exception of goodwill, are assumed to have a fixed useful life as shown above and are amortised over this useful life. The useful life is re-assessed each reporting period. Intangible assets are amortised on a straight line basis, as this best reflects the use of the asset.

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

Impairment testing of goodwill

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the CGUs (our operating segments) or groups of CGUs expected to benefit from the synergies of the combination. Each CGU or group of CGUs to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes.

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

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

The recoverable amount of the Germany CGU was determined based on a value in use calculation using cash flow projections from our three year business plan. The pre-tax discount rate applied to cash flow projections was 3.9% (2017: 4.1%). The cash flows beyond the three-year period until 2038 were estimated on the basis of regulatory allowed returns and invested capital. The terminal value is determined estimating the regulatory asset base as of December 2037. We concluded that the recoverable amount was significantly in excess of the carrying value and as such no impairment loss needed to be recognised and as such no impairment is required.

5.2 Business combinations

NOVEC has made the decision to sell 60% of the shares of WL Winet B.V. Therefore, on 31 December 2018, the assets and liabilities of WL Winet B.V. were classified as held for sale and impaired for EUR 2 million.

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

ⓘ Accounting policy

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

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

5.3 Investments in joint ventures and associates

5.3.1 Joint ventures

We have, directly or indirectly, 50% equity stakes in BritNed Development Ltd. ('BritNed'), DC Nordseekabel GmbH & Co. KG ('NOKA'), DC Nordseekabel Beteiligungs GmbH, DC Nordseekabel Management GmbH, Reddyn B.V., Tensz B.V. and TeslaN B.V. These investments are classified as joint ventures, for which only the investments in BritNed (legal seat: Arnhem, the Netherlands) and NOKA (legal seat: Bayreuth, Germany) are each considered as an investment of material value. Other joint ventures are considered immaterial and are therefore not further disclosed. The Group's share in profit (which is equal to other and total comprehensive income) of these immaterial joint ventures amounted to EUR 4 million in 2018 (2017: EUR 1 million).

BritNed

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

NOKA

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

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

	2018		2017	
Statement of financial position (EUR million)	BritNed	NOKA	BritNed	NOKA
Non-current assets	432	686	448	511
Cash and cash equivalents	60	35	16	24
All other current assets	18	22	45	6
Non-current liabilities	-11	-56	-11	-35
Current liabilities	-44	-85	-37	-142
Equity	**455**	**602**	**461**	**364**
Ownership TenneT	*50%*	*50%*	*50%*	*50%*
Carrying amount of the investment	**228**	**301**	**231**	**182**

	2018		2017	
Statement of income (EUR million)	BritNed	NOKA	BritNed	NOKA
Revenue	108	55	148	36
Depreciation and amortisation	-15	-	-16	-
Other costs	-16	-1	-19	-1
Operating profit	**77**	**54**	**113**	**35**
Finance income and expenses	-	-2	-	-1
Income tax expense	-15	-	-22	-
Profit for the year*	**62**	**52**	**91**	**34**
Ownership TenneT	*50%*	*50%*	*50%*	*50%*
Group's share in profit	**31**	**26**	**46**	**17**

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

BritNed has contingent liabilities of EUR 9 million (2017: EUR 5 million) mainly related to comfort letters issued. NOKA has contingent liabilities of EUR 0.5 billion (2017: EUR 0.8 billion) mainly related to investments in tangible fixed assets.

None of our joint ventures are permitted to distribute profits until consent from all shareholders or partners has been obtained. In 2018 EUR 34 million dividend was received from BritNed (2017: EUR 49 million) and EUR 3 million from other interests in joint ventures (2017: EUR 1 million). During 2018 we contributed EUR 92 million to NOKA's capital (2017: EUR 72 million).

Other interests in joint ventures amount EUR 1 million at 31 December 2018 (2017: nil).

5.3.2 Associates

At 31 December 2018 our substantial investments in associates consisted of a 34% interest in HGRT and a 25% interest in Open Tower Company B.V. (hereafter referred to as 'OTC'). In addition, the Group holds four immaterial investments in Energie Data Services Nederland B.V. (EDSN), European Market Coupling Company GmbH (EMCC) and TSCNET Services GmbH (TSC). The Group's share in profit (which is equal to other and total comprehensive income) of these immaterial associates amounted to EUR 4 million in 2018 (2017: EUR 2 million).

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

	2018		2017	
Statement of financial position (EUR million)	HGRT	OTC	HGRT	OTC
Non-current assets	90	99	103	106
Current assets	7	32	1	30
Other non-current liabilities	-	-167	-	-141
Current liabilities	-	-2	-	-17
Equity	**97**	**-38**	**104**	**-22**
Ownership TenneT	*34%*	*25%*	*34%*	*25%*
Carrying amount of the investment	**33**	**-**	**35**	**-**

	2018		2017	
Statement of income (EUR million)	HGRT	OTC	HGRT	OTC
Revenue	-	26	-	26
Depreciation and amortisation	-	-6	-	-6
Other costs, gains and losses	-	-5	-	-5
Operating profit	**-**	**15**	**-**	**15**
Finance income and expenses	10	-9	8	-6
Income tax expense	-	-1	-	-2
Profit for the year*	**10**	**5**	**8**	**7**
Ownership TenneT	*34%*	*25%*	*34%*	*25%*
Group's share in profit	**3**	**1**	**3**	**2**

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

HGRT
The legal seat of HGRT is in Paris, France. HGRT holds a 49% stake in EPEX. EPEX is the exchange for the power spot markets for the 'North West Europe' (NWE) region and the United Kingdom. At 31 December 2018, HGRT had no contingent liabilities outstanding (2017: nil). In 2018, EUR 4 million in dividends was received (2017: EUR 2 million).

OTC
OTC (legal seat: Vianen, the Netherlands) is a holding company and holds majority interests in three asset companies: Colonne B.V., Mobile Radio Networks Vehicle B.V. (MRNV) and OTC II B.V. These companies mainly own infrastructure assets specifically designed for terrestrial communications. OTC had no contingent liabilities as at 31 December 2018 (2017: nil). EUR 6 million dividend from OTC was received in 2018 (2017: EUR 2 million).

Other
Our interest in other associates amounted EUR 4 million at 31 December 2018 (2017: EUR 2 million).

5.3.3 ⓘ Accounting policy joint ventures and associates
A joint venture is an arrangement whereby the parties in the arrangement have joint control over the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.
An associate is an entity in which we have significant influence, but no control. Significant influence is the power to participate in the financial and operating policy decisions of the investor.

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

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

After application of the equity method, we determine whether it is necessary to recognise an impairment loss on our 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)	2018	2017
Receivables from related parties	34	23
Receivable from shareholder	-	280
Fees for credit facilities available	2	3
Other	6	5
Total	**42**	**311**

The receivables from related parties mainly consists of loans granted to NOKA and Mobile Radio Networks Vehicle B.V. (a 100% subsidiary of OTC) for the amount of EUR 28 million respectively EUR 5 million. For more details about the receivable from shareholder see note 5.5.

5.5 Account- and other receivables

(EUR million)	2018	2017
Amounts to be invoiced to EEG trade debtors	1,046	1,087
EEG trade receivables	8	40
EEG deposits > 3 month	250	-
Trade receivables	226	288
Amounts to be invoiced	514	479
Receivable from shareholder	280	350
VAT receivables	42	41
Interest receivable	4	4
Other	139	145
Total	**2,509**	**2,434**

5.5.1 EEG trade receivables and amounts to be invoiced to EEG trade debtors

In accordance with the Renewable Energy Sources Act (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 fully compensated by an EEG levy, determined annually, which is part of German consumer tariffs. EEG revenues and expenses are legally required to be administrated separately and are legally bound to be equal, except for certain potential bonus amounts payable to TenneT for marketing the energy on the power exchange. The EEG levy also includes an additional liquidity buffer to avoid a net financing need for the TSOs. We act as an agent with respect to these EEG services.

EEG trade debtors and receivables consist of the accrual of unbilled EEG levy mainly for the month December, the outstanding invoices for the EEG levy, the accrual for horizontal balancing amounts (i.e. unsettled charges to the other German TSOs) and energy trading revenues. EEG trade receivables are not at our free disposal. Refer to 5.6 for the EEG accounts payable.

Refer to 6.7 for EEG deposits.

5.5.2 Trade receivables

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

			Past due		
(EUR million)	Total	Not past due	0-30 days	31-60 days	More than 60 days
2018	**226**	**193**	**8**	**5**	**20**
2017	288	254	11	3	20

Changes in the provision for expected credit loss were as follows:

(EUR million)	2018	2017
At 1 January	**9**	**5**
Transition effect IFRS 9	1	-
Charge for the year	8	5
Utilised	-3	-
Unused amounts reversed	-3	-1
At 31 December	**12**	**9**

As at 31 December 2018, receivables with an initial value of EUR 4 million (2017: EUR 1 million) were fully provided for.

5.5.3 Amounts to be invoiced

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

5.5.4 Receivable from shareholder

Receivable from shareholder reflects our contractual right to receive the cash consideration following the 2016 capital commitment. The EUR 350 million receivable from 2017 was received in 2018. The EUR 280 million is due in 2019 and was presented under non-current other financial assets in 2017.

5.6 Account- and other payables

(EUR million)	2018	2017
EEG accounts payable	2,479	2,342
Accounts payable	301	204
Payables in connection with tangible fixed assets purchases	211	365
Grid expenses payable	1,071	1,029
Interest payable	92	97
Social securities and other taxes payable	35	11
Payables to related parties	20	20
Other payables	205	286
Total	**4,414**	**4,354**

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 mainly of accrued expenses for (i) feed-in management, and (ii) redispatch measures.

Key estimates and assumptions

In terms of 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, variable renewable energy production makes estimating the grid expenses payable a complex task.

5.6.4 Other payables

Other payables mainly comprise compensation payments to offshore wind farms, personnel related liabilities and accruals for which invoices are not yet received.

Key estimates and assumptions

Compensation payments to OWFs are based on amounts of electricity 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.

5.7 Provisions

	2018			2017		
(EUR million)	Current	Non-current	Total	Current	Non-current	Total
Environmental and decommissioning	11	665	676	24	570	594
Tariff related	28	5	33	41	16	57
Other	47	104	151	27	111	138
Total	**86**	**774**	**860**	**92**	**697**	**789**

(EUR million)	Environmental management and decommis-sioning	Tariff related	Other	Total
At 1 January 2017	**513**	**127**	**143**	**783**
Addition	28	8	24	60
Utilisation	-3	-21	-7	-31
Changes in estimations	47	-	-	47
Unused amounts reversed	-9	-58	-22	-89
Imputed interest	18	1	-	19
At 31 December 2017	**594**	**57**	**138**	**789**
Addition	71	3	11	85
Utilisation	-4	-9	-3	-16
Changes in estimations	8	-	5	13
Unused amounts reversed	-10	-18	-1	-29
Imputed interest	17	-	1	18
At 31 December 2018	**676**	**33**	**151**	**860**

5.7.1 Provisions for environmental management and decommissioning

Provisions for environmental management and decommissioning serves to cover future obligations in relation to high-voltage connections and underground cables, and to cover the decommissioning costs. In 2018 this included an additional EUR 70 million (2017: EUR 10 million) for future decommissioning costs for projects constructed during 2018. Changes in estimations relate to the provision for decommissioning for EUR 5 million (2017: EUR 42 million). Both were not recognised through the statement of income. There was no significant decommissioning of substations in 2018. The first decommissioning of an offshore grid connection is expected to start in 2029.

5.7.2 Tariff related provisions

Tariff-related provisions mainly relate to provisions for system service fees in the Netherlands. We charge electricity consumers a fee for system services performed. Following a change in law, the court in the Netherlands concluded that only parties with a direct connection to a grid maintained by a TSO are required to pay system service fees for the period prior to 31 December 2014. Consequently, we are required to refund certain amounts to parties without a direct grid connection. These refunds can be recouped through future tariffs. In 2018 EUR 18 million (2017: EUR 58 million) of the provided amount matured and was released to the statement of income.

5.7.3 Other provisions

The majority of the other provisions relate to risks associated with delays and interruptions of offshore connections in Germany. The connection of OWFs presents additional technical and organisational challenges. A number of factors, including a lack of supplier resources required for the construction of offshore grid connection system, as well as weather conditions and the application of new technologies, hindered the timely realisation and/or interrupted the operational phase of offshore grid connection systems. TenneT based its assumptions and estimates on parameters available at the time the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond control. Such changes are reflected in assumptions when they occur.

5.7.4 ⓘ Accounting policy provisions

Provisions are recognised when there is (i) a legal or constructive obligation as a result of past events, (ii) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and (iii) when the amount can be reliably estimated. The provisions are measured at the present value of estimated cash flows to settle the obligation, based on expected price levels. The cash flows are discounted at a current pre-tax rate that reflects the risks specific to the liability. The interest unwinding is recognised in the statement of income as a finance cost.

Estimated future costs are reviewed annually and adjusted as appropriate. Changes in estimated future costs and discount rates for decommissioning costs are recognised as changes in estimations in the tangible fixed assets. For all other provisions changes in estimated future costs and discount rates are recognised in the statement of income.

5.7.5 Key estimates and assumptions provisions

The estimated decommissioning provision involves assessing the expected remaining useful life of the relevant asset. The useful life of the offshore grid connections is estimated at 20 years. Decommissioning costs are provided for at the present value of expected costs to settle the obligation. This provision assumes a discount rate of 2.9% (2017: 3.0%) and an inflation rate of 2.9% (2017: 3.0%). A change in the discount rate of 1% could have a maximum impact of EUR 71 million on the asset value. The onshore substations, cables and powerlines have a lower risk profile for which a discount rate of 2.2% (2017: 2.2%) is used to calculate the net present value of expenditures. A change in discount rate of 1% could have an impact of EUR 1 million on the related book value.

A discount rate of 2.2% is applied for environmental management provisions (2017: 2.2%).

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 offshore grid connections, and the compensation paid to the offshore grid connections.

We are of the opinion that the recorded provisions reflect the best estimate of the probable outflow of resources. However, uncertainty about the assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of these provisions in future periods.

5.8 Inventory

Inventory is primarily composed of oil which is used for measures taken at power plants that are standing by for TenneT.

6. Capital structure and financing

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

6.1 Capital management

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

To maintain excellent access to financial markets at favourable conditions, we have defined capital management objectives, policies and processes that aims to:

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

Our capital management objectives, policies or processes were unchanged during 2018.

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

As of 31 December 2018 TenneT Holding B.V. had the following senior unsecured credit ratings from Standard & Poor's and Moody's Investor Service, which comply with our financial policy.

Credit rating at 31 December 2018 and 2017	Long-term rating	Short-term rating
Standard & Poor's	A– (stable outlook)	A-2
Moody's Investor Service	A3 (stable outlook)	P-2

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

To maintain a solid financial position, we intend to maintain a FFO/Net debt ratio of at least 8% based on underlying financial information (see note 2), which meet the requirements for an A-/A3 long-term unsecured credit rating as formulated by the credit rating agencies Standard & Poor's and Moody's Investor Service.

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

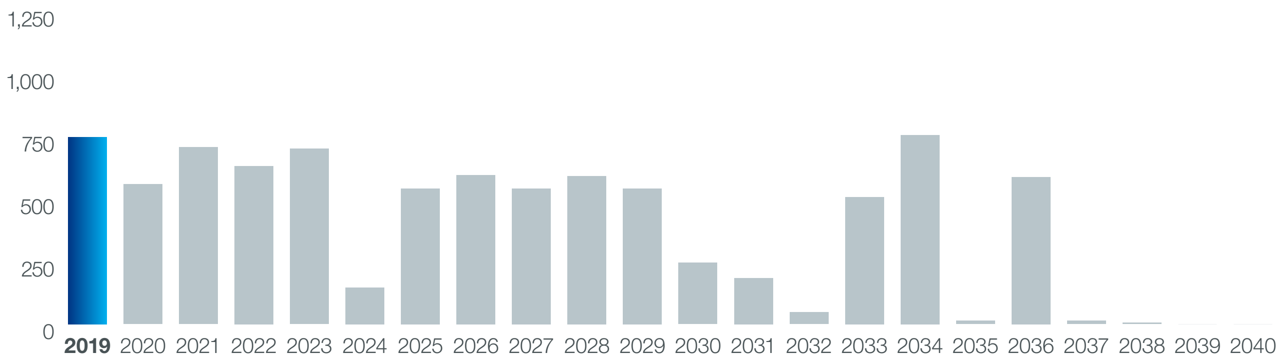
Based on underlying information (EUR million)	2018	2017
Net profit for the year	443	531
+ amortisation, depreciation and impairments	721	651
+ result on disposal of assets (non-cash)	26	7
Total FFO	**1,190**	**1,189**
Net debt		
+ Long term borrowings	7,964	6,786
+ Short term borrowings	756	917
+ Bank overdrafts	-	39
- Cash and cash equivalents at free disposal	-8	-55
Total net debt	**8,712**	**7,687**
FFO/net debt	**13.7%**	**15.5%**

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

To minimise refinancing risk, we aim to diversify the maturity profile of our senior debt. As of 31 December 2018, our interest bearing debt (excluding bank overdrafts) had the following annual redemption profile:

Annual redemption of debt

EUR million



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

We monitor the liquidity of the Group on a rolling 12-month forward-looking basis. This means that the sum of (i) cash and cash equivalents, (ii) undrawn committed credit facilities and (iii) 12-month net cash flow from operating activities should be sufficient to meet the expected aggregate of scheduled debt repayments, investments in fixed assets and dividend payments over the subsequent 12 months. To support the 12-month liquidity requirement, we signed a EUR 500 million euro-denominated Green US Private Placement with maturities of 10 till 15 years, in three tranches, with settlement in January 2019, have a EUR 2.2 billion revolving credit facility (RCF) and a EUR 350 million committed undrawn EIB facility available as of 31 December 2018. The 12-month liquidity requirement was met on 31 December 2018 and 31 December 2017.

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 (2017: 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 agreed to contribute up to EUR 1.19 billion of additional equity over the period 2017-2020 to finance TenneT's Dutch onshore- and offshore investment portfolio. The first tranche of EUR 150 million was received early March 2017. In 2018, TenneT received the second tranche of EUR 350 million. The third tranche of EUR 280 million will be made available in 2019. The final tranche of EUR 410 million in 2020 is conditional and will only be granted after further consideration of the financial situation of TenneT at that time. The final tranche is not part of the share premium reserve.

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 2018, the 2020 FSIRS amounts to EUR -1 million and for the 2021 FSIRS amounts to EUR 4 million.

Retained earnings
Part of the retained earnings has been presented as legal reserve. For more details see note 8.8.

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

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

The hybrid securities bear an optional, cumulative coupon of 2.995%, payable at TenneT's discretion annually on 1 June of each year. As at 31 December 2018, the unpaid cumulative dividend amounts to EUR 18 million (2017: EUR 18 million), relating to the period 1 June until 31 December and payable on 1 June 2019.

On 13 August 2018, the European investment Bank (EIB) obtained EUR 100 million hybrid securities, reaffirming its support for the NordLink interconnector between Germany and Norway, after the loans to TenneT and Statnett in 2017.

Dividend distribution
In 2018 a common full-year dividend of EUR 147 million (EUR 735 per share) to our ordinary shareholder was distributed. In agreement with the State of the Netherlands we have established a dividend policy with a pay-out of 35% of the underlying profit for the year after payments of distributions to hybrid securities holders and minority investors. We made a distribution to the holders of hybrid securities of EUR 30 million during 2018 (2017: EUR 37 million). The income tax benefit resulting from the latter distribution amounted to EUR 8 million during 2018 (2017: EUR 9 million). The appropriation of the 2018 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:

% Non Controlling Interests	Country	2018	2017
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	59%	61%
TenneT Offshore DolWin3 Verwaltungs GmbH ("TODV")	Germany	67%	67%
ETPA Holding B.V. ("ETPA")	Netherlands	50%	60%

The Group has the power to control TO2, TO8, TOD3 and TODV, and holds 51% of the voting rights in these entities. TenneT acquired, an additional 10.002% of the voting interest and economic rights in ETPA effective 19 April 2018. After this transaction TenneT holds 50.002% of the voting rights and controls ETPA. Movements in the non-controlling interest, to the extent material, is summarised below.

(EUR million)	TO2	TO8	TOD3
At 1 January 2017	**264**	**286**	**421**
Profit attributable to non-controlling interests	15	23	38
Dividends paid	-18	-25	-
Capital contribution	6	9	-
Capital repayment	-	-	-162
At 31 December 2017	**267**	**293**	**297**
Profit attributable to non-controlling interests	8	18	64
Dividends paid	-29	-50	-
Capital repayment	-	-	-72
At 31 December 2018	**246**	**261**	**289**

The non-controlling interest in TODV and TOD3 are held by Copenhagen Infrastructure Partners (CIP), which owns a 67% economic interest in the adjusted (for certain regulatory effects) profits of these companies. The non-controlling interest in TO2 and TO8 are held by Mitsubishi Corporation, which owns aggregate 49% of the voting interest and respectively 69% and 63% of the economic rights.

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

	2018		
Statement of financial position (EUR million)	**TO2**	**TO8**	**TOD3**
Non-current assets	1,031	1,557	1,662
Current assets	132	106	24
Non-current liabilities	-691	-1,129	-1,129
Current liabilities	-115	-121	-64
Equity	**357**	**413**	**493**
Attributable to owners of the parent	111	152	204
Attributable to non-controlling interests	246	261	289

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

	2018		
Statement of income (EUR million)	**TO2**	**TO8**	**TOD3**
Revenue	174	240	225
Depreciation and amortisation	-83	-99	-38
Other expenses	-49	-60	-9
Operating profit	**42**	**81**	**178**
Finance income and expenses	-24	-39	-22
Income tax expense	-6	-13	-20
Profit for the year	**12**	**29**	**136**
Other comprehensive income	-	-	-
Total comprehensive income	**12**	**29**	**136**
Attributable to non-controlling interests	8	18	64
Capital repayment to non-controlling interests	-	-	72
Dividends paid to non-controlling interests	29	50	-

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

(EUR million)	2018 TO2	2018 TO8	2018 TOD3
Net cash flows from operating activities	-13	-18	32
Net cash flows used in investing activities	-2	-16	-213
Net cash flows from financing activities	15	34	181
Change in cash and cash equivalents	**-**	**-**	**-**

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

6.3 Borrowings

(EUR million)	Effective interest rate	Maturity	Redemption schedule	2018	2017
2.125% bond 2013 EUR 500 million	2.22%	Nov-20	At maturity	499	499
0.875% green bond 2015 EUR 500 million	0.96%	Jun-21	At maturity	499	499
4.50% bond 2010 EUR 500 million	4.60%	Feb-22	At maturity	498	496
4.625% bond 2011 EUR 500 million	4.70%	Feb-23	At maturity	499	499
0.75% green bond 2017 EUR 500 million	0.87%	Jun-25	At maturity	496	496
1.000% green bond 2016 EUR 500 million	1.04%	Jun-26	At maturity	498	498
1.75% green bond 2015 EUR 500 million	1.83%	Jun-27	At maturity	497	497
1.375% green bond 2018 EUR 500 million	1.49%	Jun-28	At maturity	494	-
1.375% green bond 2017 EUR 500 million	1.41%	Jun-29	At maturity	498	498
4.75% bond 2010 EUR 200 million	4.92%	Jun-30	At maturity	196	196
1.250% green bond 2016 EUR 500 million	1.35%	Oct-33	At maturity	493	492
2.0% green bond 2018 EUR 750 million	2.04%	Jun-34	At maturity	745	-
1.875% green bond 2016 EUR 500 million	1.97%	Jun-36	At maturity	492	491
Non-current interest-bearing bonds				**6,404**	**5,161**
0.813% loan 2016 EUR 125 million	0.81%	2019-2038	Linear	119	125
2.74% loan 2012 EUR 150 million	2.74%	Sep-23	At maturity	150	150
4.12% loan 2010 EUR 150 million	4.12%	Jan-21	At maturity	150	150
0.72% loan 2015 EUR 500 million	0.72%	2018-2032	Linear	447	483
0.77% loan 2015 EUR 150 million	0.77%	2018-2037	Linear	134	142
4.44% loan 2010 EUR 140 million	4.44%	2016-2023	Linear	42	54
4.71% loan 2010 EUR 40 million	4.71%	2016-2022	Linear	9	12
4.40% loan 2010 EUR 40 million	4.40%	2016-2021	Linear	10	10
Non-current interest-bearing loans				**1,061**	**1,126**
0.646% green Schuldschein 2016 EUR 77 million	0.67%	May-22	At maturity	77	77
0.989% green Schuldschein 2016 EUR 100 million	1.01%	May-24	At maturity	100	100
1.310% green Schuldschein 2016 EUR 55 million	1.32%	May-26	At maturity	55	55
1.500% green Schuldschein 2016 EUR 50 million	1.51%	May-28	At maturity	50	50
1.750% green Schuldschein 2016 EUR 43 million	1.76%	May-31	At maturity	42	42
1.750% green Schuldschein 2016 EUR 95 million	1.76%	May-31	At maturity	95	95
2.000% green Schuldschein 2016 EUR 80 million	2.01%	May-36	At maturity	80	80
Non-current interest-bearing Schuldschein				**499**	**499**
Total non-current interest-bearing borrowings				**7,964**	**6,786**

Continuation >

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(EUR million)	Effective interest rate	Maturity	Redemption schedule	2018	2017
3.88% bond 2011 EUR 500 million	3.00%	Feb-18	At maturity	-	500
Current interest-bearing bonds				**-**	**500**
Cash loans	-0.01%	Jan-19	At maturity	100	110
EUR commercial papers	-0.33%	Jan-19	At maturity	591	265
0.813% loan 2016 EUR 125 million	0.81%	Oct-19	Linear	6	-
0.72% loan 2015 EUR 500 million	0.72%	Sep-19	Linear	34	18
0.77% loan 2015 EUR 150 million	0.77%	Jan-19	Linear	8	7
4.44% loan 2010 EUR 140 million	4.44%	Nov-19	Linear	11	11
4.71% loan 2010 EUR 40 million	4.71%	Nov-19	Linear	3	3
4.40% loan 2010 EUR 40 million	4.40%	Nov-19	Linear	3	3
Current interest-bearing loans				**756**	**417**
Total current interest-bearing borrowings				**756**	**917**
Total borrowings				**8,720**	**7,703**

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

(EUR million)	(Non)-current interest-bearing bonds	(Non)-current interest-bearing loans	Non-current interest-bearing Schuldschein	Total
At 1 January 2017	**4,668**	**2,295**	**499**	**7,462**
Cash inflow from new borrowings	995	375	-	1,370
Cash outflow from redemptions	-	-1,127	-	-1,127
Amortisation (non-cash)	-2	-	-	-2
At 31 December 2017	**5,661**	**1,543**	**499**	**7,703**
Cash inflow from new borrowings	1,239	691	-	1,930
Cash outflow from redemptions	-500	-417	-	-917
Amortisation (non-cash)	4	-	-	4
At 31 December 2018	**6,404**	**1,817**	**499**	**8,720**

A group of 11 banks has provided TenneT a Revolving Credit Facility (RCF) of EUR 2.2 billion maturing 31 December 2021. Besides that, the Group has signed a EUR 500 million euro-denominated Green US Private Placement, in three tranches, with settlement in January 2019 and received a loan facility of EUR 350 million from the European Investment bank (EIB) related to the NordLink project. The agreement was signed on 3 April 2017, which at year end 2018 was undrawn. The borrowings and undrawn facilities have no financial covenants.

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:

	2018			2017		
(EUR million)	At free disposal	Not at free disposal	**Total**	At free disposal	Not at free disposal	**Total**
Collateral securities	-	71	71	-	61	61
EEG funds	-	1,024	1,024	-	1,213	1,213
EEG deposits < 3 months	-	150	150	-	-	-
Cash at bank	8	-	8	55	-	55
Cash and cash equivalents	**8**	**1,245**	**1,253**	**55**	**1,274**	**1,329**
Bank overdrafts	-	-	-	-39	-	-39
Total cash and cash equivalents used in cash flow statement	**8**	**1,245**	**1,253**	**16**	**1,274**	**1,290**

Since 2016, funds related to EEG have been legally separated as required by BNetzA. EEG Funds are not at the Group's free disposal. 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 obligation is recognised towards the party that deposited the funds on the collateral. Securities are initially stated at fair value and subsequently 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, and the level in the valuation hierarchy the instruments are measured at fair value.

		Carrying amount		**Fair value**		
(EUR million)	Notes	**2018**	2017	**2018**	2017	Hierarchy
Financial liabilities						
Borrowings:						
- Borrowings – bonds	6.3	6,404	5,661	6,734	6,064	Level 1
- Borrowings – other	6.3	2,316	2,042	2,323	2,087	Level 2
Total		**8,720**	**7,703**	**9,057**	**8,151**	

As at 31 December 2018, no instruments carried at fair value were held (2017: nil). Furthermore, we concluded that the fair value of the loans and receivables, cash and cash equivalents, account- and other payables, and other financial liabilities approximate their carrying amounts at year end 2018, due to the short-term maturities of these instruments.

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

- Level 1: Measurement based on quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Measurement based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3: Measurement based on inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The fair value of the level 2 borrowings is based on discounted cash flows. A change in the assumptions used to calculate the fair value will not result in a significantly different outcome. There were no transfers between the fair value hierarchy levels during 2018.

6.6 ⓘ Accounting policies for financial instruments

Financial assets

Financial assets in general are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss. All TenneT's financial assets are classified as amortised cost, because the following two conditions are met

- The financial asset are held within a business model with the objective to hold financial assets in order to collect contractual cash flows.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment.

The Group recognises an allowance for expected credit losses (ECLs) for financial assets. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. For trade receivables and contract assets, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date.

Financial liabilities

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs. The Group's financial liabilities include trade and other payables, loans and borrowings including bank overdrafts.

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

6.7 Financial risk management

Our business activities are exposed to a number of financial risks such as interest rate risk, credit risk, liquidity risk and refinancing risk, which are described in detail in this note. Our financial risk management strategy primarily focuses on protecting the liquidity, equity capital and net result in order to safeguard our ability to continue active operations while providing an adequate return to our shareholders. Our approach to managing financial risks, including a number of specific disclosures (such as a maturity analysis of contractual undiscounted financial obligations) required by accounting standards, are set out in this note. For details about regulatory risks 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 included in the Treasury Statute approved by our Executive Board and Audit, Risk and Compliance Committee. Our financial risk management objectives, policies and processes remained unchanged in 2018 compared to 2017. The Treasury department's objective is to facilitate the realisation of our financial and strategic objectives from a funding and financial risk perspective. The Treasury Statute includes principles covering specific areas such as interest rate risk, liquidity risk, the use of derivatives, and the investment of excess liquidity. The use of all ordinary course financial instruments is permitted, provided these are used solely to cover open positions. Any speculative use of financial instruments is expressly not authorised. Our Executive Board has also approved specific risk management solutions such as the issuance of new debt capital market instruments.

Interest rate risk

We are exposed to interest rate risk on our debt portfolio. To limit this risk, our policy is to base the majority of our loan portfolio on fixed interest rates. As of 31 December 2018, the long-term loan portfolio was entirely based on fixed interest rates. An increase or decrease in interest rates of 2 percentage points would result in an increase or decrease of EUR 14 million in our net interest cost (2017: EUR 8 million) resulting from short-term loans.

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

Credit risk

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

Operational credit risk

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

In both the Netherlands and Germany, we are responsible for maintaining the balance between supply and demand of energy. The associated costs are covered by income from parties with balance responsibility, which are charged for any imbalances attributable to them. Any surplus is deducted from subsequent tariffs for system services. For certain situations, securities in the form of bank guarantees and collaterals are held as protection against the default risk of parties with balance responsibility.
With respect to the investment projects, we require 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 transfer of large cash amounts. Our policies are aimed at minimising the risks associated with the clearing transactions in connection with these cash flows.

Credit risk on trade and other receivables is limited, because most trade and other debtors have a low risk of default. TenneT has no material collateral as security and no insurance for credit risk. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets disclosed in note 5.4 and 5.5. The movement of the allowance for expected credit losses of trade receivables is included in note 5.5.2.

The provision rates for expected credit losses are based on groupings of various customer segments with similar loss patterns (such as customer type and arrears in payments). Any expected credit losses for financial guarantee contracts and commitment letters (if any) are also provided for. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables and other financial assets are written-off if there is no reasonable expectation of recovering the contractual cash flows. The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, TenneT may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group.

Financial credit risk
In 2018, financial credit risk arose mainly from our transactions and positions with 50 institutions. As at 31 December 2018, the maximum credit risk amounted to EUR 37 million (2017: EUR 55 million). Funds related to EEG are not at our free disposal and are legally separated from our cash at bank. In accordance with EEG legislation, shortfalls are reimbursed through the subsequent year's EEG levy. As a result, there is no credit risk on the side of TenneT TSO GmbH regarding the EEG funds and these are therefore not included in the aforementioned credit risk amount.

In accordance with our treasury policies, counterparty credit exposure is monitored frequently against the counterparty credit limits. We have concentration limits in place when funds are placed on deposit or when financial derivatives are entered into. At 31 December 2018 we have EUR 400 million deposits with third parties for EEG cash amounts (2017: nil) and no financial derivatives outstanding. An amount of EUR 250 million of the deposits has an maturity of more than 3 months.

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

Liquidity risk
Liquidity risk is defined as the risk that the Group cannot meet its short-term financial obligations. Our objective when managing liquidity is to be able to meet our short-term obligations at all times. Liquidity is monitored every quarter on a rolling 12-month forward-looking basis. The liquidity requirement was met each quarter including 31 December 2018 and 31 December 2017 as explained in note 6.1.

The following maturity schedule presents our financial obligations on a contractual, non-discounted basis:

(EUR million)	Notes	<1 month	1 to 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
At 31 December 2018							
Borrowings	6.3	543	148	223	3,171	6,001	10,086
Account- and other payables	5.6	1,052	885	2,344	1	-	4,282
Other financial liabilities		71	-	-	-	-	71
Total		**1,666**	**1,033**	**2,567**	**3,172**	**6,001**	**14,439**
At 31 December 2017							
Borrowings	6.3	113	832	128	2,489	5,348	8,910
Account- and other payables	5.6	2,209	587	1,461	-	-	4,257
Other financial liabilities		61	-	-	-	-	61
Total		**2,383**	**1,419**	**1,589**	**2,489**	**5,348**	**13,228**

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

In order to minimise our exposure to liquidity risk, we have a EUR 2.2 billion committed revolving credit facility (RCF) at our disposal for general corporate purposes. At 31 December 2018, this facility was undrawn. Furthermore, we have successfully signed our first euro-denominated Green US Private Placement of EUR 500 million, which is in three tranches, with settlement in January 2019 and we had EUR 350 million of undrawn long-term loan commitments from the EIB available at 31 December 2018. Finally, we had EUR 450 million of short-term uncommitted credit facilities available at year end. At the balance sheet date, EUR 0 million (2017: EUR 39 million) were drawn from these facilities.

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

We also have access to diversified funding sources through our EUR 15 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 2019 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 equity on a sustainable basis. This risk reflects the inability to raise additional equity in a timely fashion in case of large increases in our investment portfolio or negative regulatory developments. Actions taken in order to mitigate this risk are: (i) active financing strategy to create and maintain an optimal capital structure as well as to diversify funding sources and manage financial risks, (ii) proactive approach of potential investors and active discussion with shareholder to contribute additional equity and (iii) lobbying activities to ensure that regulatory frameworks remain adequate to safeguard regulators income and returns to investors.

To address this risk, TenneT's shareholder the Dutch State, made available up to EUR 1.19 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). The additional equity is paid in yearly tranches. The final tranche of EUR 410 million in 2020 is conditional and will only be granted after further consideration of the financial situation of TenneT at that time.

7. Other disclosures

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

7.1 Net employee defined benefit liabilities

7.1.1 Pension plans Germany

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

The Group contributes to two post-employment defined benefit plans in Germany: a works council agreement called 'Betriebliche Alterssicherung' (hereafter referred to as 'pension scheme 2001') and a works council agreement called 'Beitragsplan' (hereafter referred to as 'pension scheme 2008'), as well as to a small number of individual pension commitments. The pension obligations related to these plans are partly covered by assets held in two Contractual Trust Arrangements (CTA) administrated by 'Helaba Pension Trust e.V.' (Helaba). According to German law, TenneT remains ultimately liable for fulfilling these pension obligations.

Until December 31, 2017 the plan assets of the second CTA were part of a reinsurance contract with 'Versorgungskasse Energie VVaG' (VKE). Based on the partners' decision to liquidate VKE these reinsurance contracts were terminated and the underlying funds transferred into the second CTA during 2018.

Pension scheme 2001

This scheme covers employees who started their employment with TenneT Germany on or before 31 December 2007 (or later, if the individual employment contract was agreed on or before 1 April 2008). The scheme became effective on 1 January 2001 and absorbed older plans. As part of the transition in 2001 to the new plan, employees were guaranteed a vested pension claim based on the old plan for their years of service prior to the transition. The plan offers benefits in the form of old-age, disability and surviving dependents' pensions, and is composed of the employer-funded basic level based on the respective employee's yearly pensionable income, the employer-funded top-up level based on the respective company's performance, and the employee-funded supplementary level which allows employees to increase their pension entitlement through deferred compensation. Yearly fixed pension claims are calculated with a fixed internal interest rate that sum up to the total earned pension benefits of the respective employee.

Pension scheme 2008

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

Pension cost is composed of the employer-funded basic level based on the respective employee's yearly pensionable income, the employer funded top-up level based on the respective company's performance and the employee-funded supplementary level which allows employees to increase their pension entitlement through deferred compensation. If the employee contribution to the supplementary level reaches a certain level, the company pays an additional contribution of one-third of the respective basic level contribution.

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

Differences between the plans are limited and refer mainly to the way internal interest rates and the pensionable income are determined. Therefore disclosure in the notes below is not specified per plan.

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

(EUR million)	2018	2017
Current service costs (note 3.2.2)	23	11
Net interest costs (note 3.3)	4	3
Net benefit expense	**27**	**14**

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

(EUR million)	2018	2017
Defined benefit obligation	302	281
Fair value of plan assets	-94	-95
Benefit liability	**208**	**186**

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

(EUR million)	2018	2017
Defined benefit obligation at 1 January	**284**	**270**
Current service costs	23	11
Interest costs	6	4
Contributions by plan participants	2	-
Benefits paid	-3	-3
Re-measurements on obligation	-10	2
Defined benefit obligation at 31 December	**302**	**284**

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

(EUR million)	2018	2017
Fair value of plan assets at 1 January	**95**	**88**
Actual return on plan assets	-2	5
Contributions by employer	3	2
Benefits paid	-2	-
Fair value of plan assets at 31 December	**94**	**95**

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

	2018	2017
Quoted in active markets:		
Equity instruments	33%	20%
Debt securities	48%	32%
Investment funds	0%	0%
Other	5%	3%
Unquoted investments:		
Equities	0%	3%
Debt securities	5%	0%
Real estate	8%	0%
Cash	1%	42%

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

(EUR million)	2018	2017
Accumulated balance at 1 January	**126**	**129**
Re-measurements during the year	-5	-3
Accumulated balance at 31 December	**121**	**126**

ⓘ Accounting policy

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

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

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

Key estimates and assumptions

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

	2018	2017
Discount rate	2.00%	1.95%
Inflation rate	2.00%	2.00%
Future salary increases	2.50%	2.50%
Future pension increases	1.75%	1.75%

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

(EUR million)	2018	2017
0.25% change of discount rate	-16	-15
0.5% change of salary increase rate	-	2
0.5% change of pension increase rate	1	4
Change of 1 year in life expectancy	10	9

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

We expect to contribute EUR 0.8 million to our defined benefit pension plans in 2019 and expect the following, undiscounted, benefit payments from the plan:

(EUR million)	2018	2017
Within the next 12 months	5	3
Within 2-5 years	22	20
Within 5-10 years	38	34
More than 10 years	392	386
Total	**457**	**443**

7.1.2 Pension plan the Netherlands

For the majority of our Dutch personnel we have a multi-employer scheme at ABP Pension Fund (ABP) in the Netherlands. The pension contribution rate for 2018 was 22.9% of the pensionable salary. In 2019 we expect to contribute EUR 17 million to the multi-employer scheme administered. Compared to the total participants in the ABP pension fund, our share in ABP is very limited. We are not liable for deficits in the multi-employer plan, but may be required to pay higher contributions (i.e. surcharge to the contribution rate) to the scheme like other participants.

ABP has indicated that it is unable to provide the kind of company-specific information required by IFRS for defined-benefit pension schemes. As such, this scheme is treated as if it were a defined contribution scheme.

Since the financial situation of the ABP pension plan at 31 December 2015 was inadequate from a regulatory perspective, 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 2018 was 103.8% (2017: 101.5%) 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)	2018	2017
Grid-related commitments	1,241	1,382
Other off-balance sheet commitments	451	628
Total off-balance sheet obligations	**1,692**	**2,010**
Off-balance sheet rights		
Government guarantees received	300	300
Other off-balance sheet rights	65	124
Total off-balance sheet rights	**365**	**424**

The expected cash flows for grid-related commitments and other off-balance sheet commitments are equal to the amounts in the above table. For guarantees issued no cash flows are expected.

7.2.1 Grid related commitments

Grid-related commitments include received but unused auction receipts in the Netherlands amounting to EUR 555 million (2017: EUR 646 million).

7.2.2 Government guarantees received

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

7.2.3 Other

Other off-balance sheet commitments mainly comprise of TenneT's commitment to provide the NOKA joint venture with sufficient funds for the construction of the Southern Part of the NordLink cable. Various other off-balance sheet commitments and contingencies as well as other off-balance sheet rights exist which are immaterial from a disclosure perspective.

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

7.3 Related parties

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

TenneT has entered into transactions with the following related parties:

- State of the Netherlands: TenneT Holding B.V. is controlled by the Dutch State, which owns 100% of the Company's ordinary shares (refer to note 5.4 and 5.5);
- Joint ventures NOKA and BritNed (refer to note 5.3.1);
- Associates HGRT and OTC (refer to note 5.3.2);
- The former CEO, Mel Kroon, bought the company car that was made available to him during his tenure at arms lengths for an amount of EUR 75 thousand;
- Members of the Executive and Supervisory Board of TenneT Holding B.V. (refer to note 3.2.2);
- Mobile Radio Networks Vehicle B.V. (refer to note 5.4).

Legal entities that share key management personnel

Ms Hottenhuis was a member of the Executive Board of ARCADIS N.V. until 31 July 2018. 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. In the course of 2018 Ms Hottenhuis' membership of the Supervisory Board ended. Further reference is made to the Supervisory Board report.
Ms van Beek was Country Managing Director of Accenture Netherlands until 31 August 2018. Accenture Netherlands is one of our suppliers. Ms Hottenhuis has and will not be involved in any commercial dealings between Accenture Netherlands 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.

ARCADIS and Accenture Netherlands 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	2018	2017	2018	2017	
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%	
ETPA Holding B.V.	Amsterdam	Netherlands	50%	40%	50%	40%	
ETPA B.V.	Amsterdam	Netherlands	50%	40%	50%	40%	
Nadine Netwerk B.V.	Arnhem	Netherlands	100%	100%	100%	100%	*
NLink International B.V.	Arnhem	Netherlands	100%	100%	100%	100%	*
NOVEC B.V.	The Hague	Netherlands	100%	100%	100%	100%	
Omroepmasten B.V.	Vianen	Netherlands	100%	100%	100%	100%	
Saranne B.V.	Arnhem	Netherlands	100%	100%	100%	100%	*
Stichting Beheer Doelgelden Landelijk Hoogspanning-snet	Arnhem	Netherlands	N/A	N/A	N/A	N/A	
TenneT Duitsland Coöperatief U.A.	Arnhem	Netherlands	100%	100%	100%	100%	*
TenneT Green B.V.	Arnhem	Netherlands	100%	100%	100%	100%	*
TenneT Orange B.V.	Arnhem	Netherlands	100%	100%	100%	100%	
TenneT TSO B.V.	Arnhem	Netherlands	100%	100%	100%	100%	
TenneT TSO Duitsland B.V.	Arnhem	Netherlands	100%	100%	100%	100%	*
TransTenneT B.V.	Arnhem	Netherlands	100%	100%	100%	100%	*
WL Winet B.V.	Maasdijk	Netherlands	100%	100%	100%	100%	
Relined B.V.	Utrecht	Netherlands	100%	100%	100%	100%	
Relined GmbH	Emsbüren	Germany	100%	100%	100%	100%	
DC Netz BorWin3 GmbH	Bayreuth	Germany	0%	100%	0%	100%	***
DC Netz DolWin4 GmbH	Bayreuth	Germany	100%	100%	100%	100%	
DC Netz GmbH	Bayreuth	Germany	0%	100%	0%	100%	***
DC Netz HelWin1 GmbH	Bayreuth	Germany	100%	100%	100%	100%	
DC Netz SylWin2 GmbH	Bayreuth	Germany	100%	100%	100%	100%	
NOVEC GmbH	Emsbüren	Germany	100%	100%	100%	100%	
TenneT GmbH & Co. KG	Bayreuth	Germany	100%	100%	100%	100%	**
TenneT Offshore 1. Beteiligungsgesellschaft mbH	Bayreuth	Germany	51%	51%	31%	31%	
TenneT Offshore 2. Beteiligungsgesellschaft mbH	Bayreuth	Germany	51%	51%	31%	31%	
TenneT Offshore 4. Beteiligungsgesellschaft mbH	Bayreuth	Germany	100%	100%	100%	100%	
TenneT Offshore 7. Beteiligungsgesellschaft mbH	Bayreuth	Germany	100%	100%	100%	100%	
TenneT Offshore 8. Beteiligungsgesellschaft mbH	Bayreuth	Germany	51%	51%	37%	37%	

Continuation >

< Continued

Subsidiary	Legal seat	Country	Voting interest		Economic interest		
			2018	2017	2018	2017	
TenneT Offshore 9. Beteiligungsgesellschaft mbH	Bayreuth	Germany	51%	51%	37%	37%	
TenneT Offshore Dolwin3 Beteiligungs GmbH & Co. KG	Bayreuth	Germany	51%	51%	41%	39%	**
TenneT Offshore Dolwin3 GmbH & Co. KG	Bayreuth	Germany	51%	51%	39%	39%	**
TenneT Offshore Dolwin3 Verwaltungs GmbH	Bayreuth	Germany	51%	51%	33%	33%	
TenneT Offshore GmbH	Bayreuth	Germany	100%	100%	100%	100%	
TenneT TSO GmbH	Bayreuth	Germany	100%	100%	100%	100%	
TenneT Verwaltungs GmbH	Bayreuth	Germany	100%	100%	100%	100%	
WL Winet GmbH	Emsbüren	Germany	100%	100%	100%	100%	

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

** This company, which has been consolidated in these financial statements, has opted for the exemption of Section 264b of the German Commercial Code.

*** These entities where merged in 2018 with TenneT Offshore GmbH.

As we can exercise direct control over its management and financial and operational policies, the consolidation includes Stichting Beheer Doelgelden Landelijk Hoogspanningsnet, a foundation which temporarily manages funds arising from the maintenance of the energy balance and auctioning of cross-border capacity by TenneT TSO B.V.

7.5 Events after the reporting period

No significant events occurred after the reporting period.

Company financial statements

Company statement of income

For the year ended 31 December (EUR million)

(EUR million)	Notes	2018	2017
Revenue		**1**	**-**
Other operating expenses		-3	-4
Other gains/(losses)		-	3
Total operating expenses		**-3**	**-1**
Share in profit of joint ventures and associates		4	3
Operating profit		**2**	**2**
Finance income	8.2	165	171
Finance expenses	8.3	-170	-171
Finance result		**-5**	**-**
Profit before income tax		**-3**	**2**
Income tax expense		-13	-22
Profit from subsidiaries	8.4	436	497
Profit for the year		**420**	**477**

Company statement of financial position

For the year ended 31 December (EUR million)

Assets	Notes	2018	2017
Non-current assets			
Investments in subsidiaries	8.4	6,690	6,296
Investments in joint ventures and associates	8.5	35	35
Other financial assets	8.6	6,232	6,050
Total non-current assets		**12,957**	**12,381**
Current assets			
Other financial assets	8.6	1,393	1,342
Account- and other receivables	8.7	309	350
Cash and cash equivalents		3	51
Total current assets		**1,705**	**1,743**
Total assets		**14,662**	**14,124**

Equity and liabilities	Notes	2018	2017
Equity	8.8		
Paid up and called-up capital		100	100
Share premium		1,380	1,380
Revaluation reserve		43	54
Reserve for participating interests		61	8
Reserve for internally generated assets		22	9
Hedging reserve		3	4
Retained earnings		1,966	1,716
Unappropriated result		389	442
Equity attributable to ordinary shares		**3,964**	**3,713**
Hybrid securities		1,120	1,018
Equity attributable to owners of the company		**5,084**	**4,731**
Non-current liabilities			
Borrowings	8.9	7,964	6,786
Payables to group companies		-	280
Deferred tax liability		5	4
Total non-current liabilities		**7,969**	**7,070**
Current liabilities			
Borrowings	8.9	756	917
Account- and other payables	8.10	853	1,367
Bank overdrafts		-	39
Total current liabilities		**1,609**	**2,323**
Total equity and liabilities		**14,662**	**14,124**

Notes to the company financial statements

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

8.1 Company accounting policies

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

ECL provisions for receivables from subsidiaries will be eliminated as intercompany positions. As a result changes in these ECL provisions will not impact the carrying amounts of the financial assets in the company statement of the financial position.

8.2 Finance income

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

8.3 Finance expenses

Finance expenses mainly relate to interest on borrowings and credit facilities (2018: EUR 152 million; 2017: EUR 154 million).

8.4 Investments in subsidiaries

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

(EUR million)	2018	2017
At 1 January	**6,296**	**5,841**
Share in result	436	497
Capital contribution	1	-
Dividends received	-46	-54
Re-measurement of defined benefit pension	3	2
Net effect on (partial) sale/acquisition of subsidiaries	-	10
At 31 December	**6,690**	**6,296**

In 2018 we increased our share in ETPA Holding B.V. from 40% to 50.002% and therefore it has become a subsidiary. Investments in subsidiaries relate to the legal entities included in the consolidation as disclosed in note 7.4 of the consolidated financial statements.

ⓘ Accounting policies

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

When our share of losses in an investment equals or exceeds our interest in this investment, (including separately presented goodwill or any other unsecured non-current receivables, as part of the net investment), we do not recognise any further losses, unless we have incurred legal or constructive obligations or made payments on behalf of this investment. In such case, we will recognise a provision.

8.5 Investments in joint ventures and associates

Investments in joint ventures and associates are mainly related to HGRT.
In 2018, TenneT's share in HGRT's result amounted to EUR 3 million (2017: EUR 3 million) and EUR 4 million (2017: EUR 2 million) dividends were received. Further reference is made to note 5.3.2 of the consolidated financial statements.

8.6 Other financial assets

(EUR million)	2018	2017
Receivables from shareholder	-	280
Receivables from subsidiaries	6,226	5,767
Other financial assets	6	3
Total	**6,232**	**6,050**

Receivables from subsidiaries are mainly related to intercompany loans and the in house bank activities of TenneT Holding B.V. The agreed interest rate for the intercompany loans is our cost of fund rating +0.125%. These receivables are unsecured. The movement schedule is as follows:

(EUR million)	2018	2017
At 1 January	**6,050**	**6,200**
Additions	611	657
Repayments	-33	-391
Transfer to current	-394	-419
Other movements	-2	3
At 31 December	**6,232**	**6,050**

Besides non-current other financial assets, the company has EUR 1.4 billion (2017: EUR 1.3 billion) of current other financial assets which is related to receivables from subsidiaries. Certain subsidiaries have guaranteed the payment to creditors of TenneT Holding up to an amount of EUR 2,642 million.

8.7 Account- and other receivables

(EUR million)	2018	2017
Receivable from shareholder	280	350
Current income tax receivable	29	-
Total	**309**	**350**

Compared to previous year the account- and other receivables are presented in line with the consolidated financial statements as a seperate account. The comparative figures are also reclassified from the other financial assets to account- and other receivables.

8.8 Equity

(EUR million)	Reserve Participating interests	Reserve for internally generated assets	Hedging reserve	Revaluation reserve	Total legal reserve
At 1 January 2018	**8**	**9**	**4**	**54**	**75**
Result NOKA and HGRT	29	-	-	-	29
Result NOKA prior years	28	-	-	-	28
Dividend NOKA and HGRT	-4	-	-	-	-4
Internally generated intangible assets	-	13	-	-	13
Depreciation revaluation tangible fixed assets	-	-	-	-11	-11
Amortisation of hedges	-	-	-1	-	-1
At 31 December 2018	**61**	**22**	**3**	**43**	**129**

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 covers the IFRS 1 revaluation of tangible fixed assets in 2004. The legal reserve for joint venture NOKA which amounts EUR 28 million at the end of 2017 was reclassified from the retained earnings to reserve for participating interests in 2018. The reserve for participating interests relates to HGRT and NOKA, from which we cannot enforce payment of dividends. In the consolidated financial statements, the revaluation reserve, the reserve for internally generated assets, and the reserve for participating interests are included in retained earnings.

The legal reserves are not freely distributable.

The appropriation of the 2018 profit is at the free disposal of the General Meeting of Shareholders and has not been recorded in the financial statements.

8.9 Borrowings

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

8.10 Account- and other payables

(EUR million)	2018	2017
Payables to subsidiaries	757	1,260
Interest payable	92	97
Current income tax payable	-	5
Other payables	4	5
Total	**853**	**1,367**

8.11 Events after reporting period

See note 7.5 of the consolidated financial statements.

Arnhem, 18 February 2019

Executive Board TenneT Holding B.V.
M.J.J. van Beek*
B.G.M. Voorhorst*
O. Jager*
W. Breuer

Supervisory Board TenneT Holding B.V.
A.F. van der Touw
P.M. Verboom
R.G.M. Zwitserloot
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