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certiq

annual report 2006

Contents CertiQ annual report 2006

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Valuable

Report by the Board of Management

'Valuable' is the theme linking EnerQ's and CertiQ's annual reports for 2006 – a term that refers to the added value that these two implementing bodies have brought to the developing Dutch sustainable energy sector in the past few years.

That the MEP grant scheme has proved itself valuable is beyond doubt. In the past few years numerous initiatives have been developed for the generation of sustainable energy. These successful initiatives have put the Netherlands on course to achieve its target for the sustainable generation of electricity (at least 9% of total electricity production by 2010). In the summer of 2006, the Ministry of Economic Affairs predicted that this goal will be achieved even when the grant scheme is discontinued. Of course, an important precondition for this is the establishment of an efficient certification system for sustainable electricity – the task of CertiQ.

The new government will have to determine under what conditions and at what time the MEP grant scheme will be re-opened to new production units. In any case, it is clear to CertiQ and EnerQ that we should look beyond the horizon of our own lifetime and make a valuable contribution to achieving a liveable world for future generations. Of course, we await with great interest what decisions the new cabinet will take with regard to sustainable energy. Both nationally and internationally, promising plans have been formulated, such as those of the current government which has declared itself in favour of a 20% sustainable energy target by 2020. In seeking to achieve this goal, the government and society at large can count on the full support of CertiQ and EnerQ.

Ir. J.M. Kroon MBA

Chief Executive Officer
TenneT TSO B.V.

Ir. B.G.M. Voorhorst

Director Operations
TenneT TSO B.V.

Foreword

For CertiQ, 2006 was an interesting year. Developments in several areas affected the organisation's activities.

For instance, the MEP tariffs were adjusted, causing major fluctuations in the number of certificate applications. The regulations governing certificates for CHP plants were adjusted and a new scheme was introduced for waste incineration plants. And of course there was the announcement on 18 August from outgoing Minister of Economic Affairs Joop Wijn that the MEP grant scheme would be temporarily suspended with immediate effect. The reason given by the minister was that the target of 9% sustainable electricity by 2010, achieved through gradual growth, could now be realised without continuing the grant scheme. The new cabinet will have to decide under what conditions and at what time the MEP grant scheme will be re opened for new production units.

However, CertiQ is more than a gateway to EnerQ for the issuance of MEP grants. The Guarantees of Origin issued by CertiQ have been designated by the Dutch legislator as the exclusive proof that electricity has been produced using sustainable methods. Because these certificates represent the sustainable character of electricity, they have a certain market value. Certificates are not only used by market parties as proof of supply of sustainable electricity, but are also traded nationally and internationally.

Internationally, CertiQ made progress with the Association of Issuing Bodies (AIB), the European alliance of organisations that manage electricity certificates, of which CertiQ is a member. The EECs standard for Guarantees of Origin used by the AIB has been adopted by the European Commission as an officially recommended standard. In doing so, the Commission has recognised the reliability of the standard that also applies to the Guarantees of Origin issued by CertiQ – and that is certainly something to be proud of.

We were also pleased with the report of the Cramer Commission, which formulated sustainability criteria for electricity generated from biomass. In the course of 2007 a number of specific instruments will be developed based on the Commission's findings. The report will give rise to further discussions on the social and environmental consequences of various types of (bio)fuel. CertiQ hopes that key political decisions will be made as a result of this debate. As far as we are concerned, those decisions should entail investing in a liveable world, both now and in the future. It is abundantly clear that the long-term security of energy supplies can only be guaranteed if we reduce our dependence on fossil fuels. In addition, we will have to further limit CO₂ emissions

in order to combat climate change. CertiQ and its sister company EnerQ share a conviction that the MEP scheme and the issue of reliable electricity certificates in the form of Guarantees of Origin are valuable instruments to promote sustainable electricity production.

Of course, we await with great interest what decisions the new cabinet will take with regard to sustainable energy. The coalition agreement mentions a target of 20% sustainable energy by 2020, and the European Union has advocated a 20% reduction in CO₂ emissions at this year's Spring Summit. Realisation of these goals requires a large amount of sustainably generated electricity. It is clear to CertiQ, as monitoring office of the electricity certification system, that these ambitious plans will only have a good chance of success if incentive measures continue to be in place to ensure that the cost of sustainable electricity is competitive when compared to that of regular electricity.

CertiQ and EnerQ hope to act as a valuable sparring partner for the ministries and policymakers concerned, so that we can contribute to the decision-making process within the growing market for sustainable energy.

Mr. Gineke van Dijk

Manager CertiQ B.V.

The liberalisation of the market for sustainable electricity prompted the government to introduce a certificate system in 2001 to facilitate the trade in and supply of 'green' electricity. A company called Groencertificatenbeheer was established in 2001 to run the system. This name was changed to CertiQ in 2003, partly to reflect an expansion of its activities. All shares in CertiQ are held by its parent company TenneT TSO B.V. In December 2003, the Ministry of Economic Affairs officially designated TenneT as the issuing body for guarantees of origin. CertiQ is also the issuing body in the Netherlands for the Renewable Energy Certificate System (RECS), a commercial European certificate system initiated by various market players. The major advantage of a certificate system is that it ensures that the route from generator to end user is clear and verifiable. Production certificates, better known as 'Guarantees of Origin', are used as proof of sustainable generation. CertiQ issues three types of certificates:

- Guarantees of Origin;
- CHP certificates; and
- RECS certificates.

The first two types of certificates result from ministerial regulations, while the RECS certificates are based on a voluntary system. Both Guarantees of Origin and RECS certificates conform to the standards of the Association of Issuing Bodies (AIB).

The introduction of the certificate system is closely related to developments in the energy sector and particularly the importance assigned worldwide to generating sustainable electricity in 1997. This was the year when the major industrialised nations agreed in the Japanese city of Kyoto to reduce emissions of carbon dioxide (CO₂) and other greenhouse gases (through the 'Kyoto Protocol'). The goal is an average reduction of 5% over the 2008-2012 period compared with the 1990 level.

The target for the Netherlands is to ensure that at least 9% of all consumed energy is produced by sustainable methods in 2010. Data collected by Statistics Netherlands (CBS) in March 2007 show that the percentage of 'green' electricity has risen from 4.3% in 2004 to 6.1% in 2005 and 6.6% in 2006. The Ministry of Economic Affairs expects that the 9% target for 2010 will be met.

CertiQ uses the computerised Electricity Certificate System (E-certificate system) to perform its task. Plants are eligible to receive Guarantees of Origin or CHP certificates when the operator of the grid to which they are connected determines that the plant generates sustainable energy or qualifies as a CHP plant. In addition, it must be possible to measure precisely how much electricity is generated by the plant.

The Guarantees of Origin issued by CertiQ are the only evidence permitted in the Netherlands that electricity has been generated on a sustainable basis. Among other purposes, Guarantees of Origin are used by the Office of Energy Regulation (DTe) to check electricity labels, thus contributing to the transparency and verifiability of the market for sustainable electricity.

Another purpose of the Guarantees of Origin is to facilitate the market for sustainable electricity. Because the certificates can be traded separately from the electricity contracts, they enhance market liquidity.

Finally, CertiQ's sister company EnerQ pays out MEP grants based on the aforementioned Guarantees of Origin and CHP certificates. Under the MEP scheme it is possible to obtain a subsidy for electricity generated from sustainable sources – such as wind energy, biomass, solar energy and hydropower – and by combined heat and power plants.

3.1 Working methods

Generators must be registered in the E-certificate system to qualify for Guarantees of Origin or CHP certificates. To be registered, they must first submit a so-called 'conformity statement', i.e. a declaration by the grid operator that the plant in question satisfies the legal requirements. Once these conditions are fulfilled, the generator receives a membership agreement which he must sign and return to CertiQ. The generator is then registered in the E-certificate system and is eligible to receive certificates for the electricity produced by that plant using sustainable energy sources or through combined heat and power generation. The number of certificates is determined based on the production data that the grid operator submits each month.

Additional information is needed to create certificates for biomass energy. A trader must indicate what percentage of the total production is generated by sustainable methods. He must then state the quantities of the different types of biomass that were used in the period concerned.

Generators who generate electricity using a combined heat and power plant must also satisfy additional requirements. Since July 2004 the number of certificates has been related to the CO₂ emissions produced by the plant as expressed in the CO₂ index. For systems that consist only of gas engines, the CO₂ index is defined in a standard table issued by the Ministry of Economic Affairs. For systems that do not consist solely of gas engines, the generator must draw up a measurement protocol, after which the CO₂ index will be determined for each production month based on a measurement report.

After registration of the generator, the certificates are automatically created and credited to the account of the trader nominated by the generator. A trader is the only party that may own created Guarantees of Origin. Any (legal) entity may register with CertiQ as a trader. The trader can opt to trade the certificates, divide them up into smaller denominations, withdraw them or use them as proof of supply of sustainable electricity to end-users. For every megawatt-hour (MWh) of 'green' electricity that is supplied, a guarantee of origin of equal value must be debited from the trader's account. To do this the trader states on his account that the certificates have been used ('redeemed'). CHP certificates are not tradable and are used only as a basis for the payment of MEP grants. The same applies to certificates for sustainably produced electricity that is delivered to a plant instead of to the public grid. Non tradable certificates cannot be used as proof of supply of sustainably generated electricity.

3.2 Value of certificates

Certificates are issued in various denominations which represent the number of megawatt hours. There are denominations of 1, 10, 100, 1,000 and 10,000 MWh. The certificates are issued in the largest denominations possible. A certificate states the origin, the quantity of electricity produced and the date of issue.

The certificates are valid for one year. They subsequently lose their validity and can no longer be used as proof of delivery of sustainable electricity.

3.3 Tariffs

Following consultation with the Participant Council, which represents CertiQ's members, the management periodically determines the tariffs charged by CertiQ. CertiQ's tariffs are based on operating forecasts. Principle is that these tariffs are cost-covering. Any differences between income and expenses are discounted in tariffs for future years.

Table 1 Tariffs since July 2001 (in euros)

| Component | July 2001 | March 2002 | January 2003 | July 2003 | January 2004 | January 2005 | January 2006 |
|---------------------------------------|--------------|---------------|-----------------|--------------|-----------------|-----------------|-----------------|
| Registration of generator | 25 | 25 | 25 | 25 | 25 | 25 | 25 |
| Registration of trader | 2,500 | 2,500 | 2,500 | 2,500 | 2,500 | 750 | 750 |
| Registration of aggregator | - | 2,500 | 2,500 | 2,500 | 2,500 | 750 | 750 |
| Registration of trading platform | - | - | - | - | 5,000 | 5,000 | - |
| Annual fee for generator | 25 | 25 | 25 | 25 | 25 | 25 | 25 |
| Annual fee for trader | 2,500 | 2,500 | 2,500 | 2,500 | 2,500 | 2,500 | 2,500 |
| Annual fee for trader <50,000 MWh | - | - | - | - | - | 750 | 750 |
| Annual fee for aggregator | - | 2,500 | 2,500 | 2,500 | 2,500 | 2,500 | 2,500 |
| Annual fee for aggregator <50,000 MWh | - | - | - | - | - | 750 | 750 |
| Annual fee for trading platform | - | - | - | - | 5,000 | 5,000 | - |
| Per certificate of 1 MWh | | | | | | | |
| - creation | 0.300 | 0.150 | 0.100 | 0.037 | 0.037 | 0.037 | 0.060 |
| - reissue | - | - | - | - | 0.027 | 0.027 | - |
| - transfer | 0.250 | 0.020 | 0.020 | 0.010 | 0.010 | 0.010 | 0.010 |
| - usage (redemption) | 0.300 | 0.150 | 0.100 | 0.074 | 0.074 | 0.074 | 0.060 |
| - import | - | 0.020 | 0.020 | 0.010 | 0.010 | 0.010 | 0.010 |
| - export | - | 0.020 | 0.020 | 0.010 | 0.010 | 0.010 | 0.010 |

3.4 CertiQ's business environment

CertiQ maintains close relations with various parties in the market. The key parties are:

TenneT TSO B.V.

In accordance with Section 73 of the Electricity Act, the Ministry of Economic Affairs has designated TenneT, the company that operates the national high-voltage grid, as the party responsible for establishing a certificate system for electricity generated in an environmentally friendly manner. CertiQ performs this task on behalf of TenneT. TenneT is the parent company and sole shareholder of CertiQ. CertiQ uses TenneT's electronic infrastructure to manage the E-certificate system.

EnerQ B.V.

CertiQ's sister company EnerQ pays out MEP grants on behalf of TenneT, based on the certificates created by CertiQ.

Ministry of Economic Affairs

The Dutch Ministry of Economic Affairs is responsible for policy on sustainable energy, combined heat and power (CHP) systems and climate-neutral fossil energy. Policy coordination takes place with the Ministry on issues that affect CertiQ.

Grid administrators

Besides their regular duties, the grid administrators are responsible for examining and approving applications for registration of production devices and for submitting measured data on time.

Office of Energy Regulation (DTe)

DTe is the energy sector regulator in the Netherlands. Its tasks include overseeing implementation of and compliance with the Electricity Act of 1998 and the schemes carried out by CertiQ.

Generators

Generators generate electricity using a CHP system or a plant for sustainably generated energy. They supply the energy to the electricity grid or to another plant. CertiQ issues Guarantees of Origin or CHP certificates for the generators' output.

Traders

Only a trader may hold created certificates. A trader purchases sustainable electricity from generators. The generators then indicate to CertiQ that the Guarantees of Origin should be credited to the trader's account. The trader may opt to trade the certificates or use them as proof of supply of sustainable electricity to end-users.

Participants Council and E-MEP Platform

CertiQ has established a Participant Council to ensure optimum alignment with the wishes of its members. The members represent the interests of the participants in the certificate system. CertiQ takes the Council's recommendations into account when drawing up its annual plan. Besides the Participant Council, the E-MEP Platform helps assure the optimum functioning of the system. The E-MEP Platform was created in June 2005 through a merger of CertiQ's E-certificate Platform and a similar platform organised by EnerQ. The E MEP Platform includes representatives of CertiQ, EnerQ, the Participant Council, the Ministry of Economic Affairs, the Tax and Customs Administration and several regional grid administrators.

Association of Issuing Bodies (AIB)

The AIB is an international alliance of issuing bodies. CertiQ is one of its members. The AIB aims to standardise energy certificate systems in order to facilitate international trade. The EECS standard used by the AIB has now been adopted by the European Commission as an officially recommended standard for the implementation of national certificate systems. The members of the AIB issue Guarantees of Origin and RECS certificates.

RECS International

RECS stands for Renewable Energy Certificate System. RECS International is the interest group of this commercial European certificate system, which was initiated by various market players. Within CertiQ the RECS system runs parallel, as far as possible, to the Guarantees of Origin system.

SenterNovem

SenterNovem is an agency of the Dutch Ministry of Economic Affairs. Among other tasks, it is responsible for implementing the grant scheme for the generation of sustainable electricity in fermentation plants. This grant is awarded on the basis of Guarantees of Origin issued by CertiQ.

Statistics Netherlands (CBS)

Every month, CertiQ sends statistical data on the production of sustainable electricity to CBS on the basis of an agreement concluded between TenneT and CBS. CBS incorporates this information in its publications.

3.5 Corporate Governance Code

When the Dutch Corporate Governance Committee (commonly known as the Tabaksblat Committee) introduced its Corporate Governance Code at the end of 2003, TenneT, the sole shareholder and manager of CertiQ, decided to comply with the Code wherever its application was possible, even though TenneT is not a listed company. TenneT believes the Code's principles and best-practice provisions provide an effective guideline for the way TenneT and its majority subsidiaries should operate.

The Code is observed not only by TenneT but also by its group companies, including CertiQ. This makes sense because TenneT is CertiQ's sole shareholder and its registered director. In addition, the permanent staff of CertiQ is provided on secondment from TenneT.

No substantial changes were made to the corporate governance structure in 2006.

Board of Management

The Board of Management of CertiQ is responsible for the company's strategic and organisational policy and for ensuring the effective and efficient implementation of the Guarantee of Origin scheme and the other certificate schemes. CertiQ is accountable to TenneT for the fulfilment of this statutory duty.

TenneT has laid down a framework for policymaking on internal risk management and control systems. The Board of Management and the management team of CertiQ are responsible for managing these systems.

CertiQ draws up an annual plan that includes the operating budget, the investment budget and the financing requirement. This annual plan is approved by the shareholder and serves as a mandate for the Board of Management. CertiQ reports to the shareholder at least every quarter on the implementation of the annual plan. In addition, periodical reporting takes place concerning the company's financial results and operational developments.

Core values: quality and integrity

Quality and integrity are the core values against which TenneT's activities may be judged. These values are further elaborated in TenneT's Company Code, which was fully revised in 2006. In accordance with Section 11b of the Electricity Act 1998, TenneT has also formulated a Code of Conduct.

The Company Code may be regarded as the code of conduct referred to in the Corporate Governance Code. TenneT's Company Code applies to permanent employees as well as external employees engaged by TenneT, and therefore also to the staff of CertiQ. All the staff members of CertiQ have signed a written declaration agreeing to abide by the Company Code and the Code of Conduct. The Company Code is published on TenneT's website.

Compliance with the Company Code and the Code of Conduct is monitored by a Compliance Officer. The Compliance Officer acts as a point of contact for the company and has an advisory and supervisory role. In addition, the Compliance Officer reports to the Board of Management and prepares an annual compliance report for submission to the Office of Energy Regulation (DTe). TenneT also organises information and awareness campaigns on compliance-related issues.

The whistleblower's procedure is another tool for monitoring in-house quality and integrity. Under this procedure, employees can anonymously report suspected irregularities of a general, operational or financial nature that have (allegedly) occurred within the company. Such irregularities can be reported to a specially designated confidential adviser. TenneT has explicitly stated that employees may make such reports without jeopardising their legal position. The whistleblower's procedure is published on TenneT's website.

The confidential adviser was approached several times by TenneT employees in 2006. However, no evidence was found of irregularities of a general, operational or financial nature within the company.

Financial reporting

The Board of Management is of the opinion that the financial statements for 2006 contain no material misstatements.

The Board of Management is also satisfied that there is no other reason to believe that CertiQ's internal systems for the control and management of financial reporting risks did not function effectively during the year under review or do not provide a reasonable degree of certainty that the company's financial reporting contains no material misstatements.

External auditor

CertiQ's external auditor, PricewaterhouseCoopers Accountants N.V., audits the company's financial statements and reports to the Supervisory Board and Board of Management. The external auditor draws up the auditor's report and the management letter and issues the auditor's report that accompanies CertiQ's financial statements.

The services CertiQ contracts out to PricewaterhouseCoopers are checked beforehand to ensure they are compatible with the requirements concerning the external auditor's impartiality.

In accordance with the guidelines of the Royal Netherlands Institute of Chartered Accountants (NIVRA), a different responsible partner of the external auditor must be appointed at least once every seven years in the interests of independence and impartiality. This requirement is also in line with the principles of the Dutch Corporate Governance Code (Tabaksblat Code). Responsibility for CertiQ has been transferred to a different partner within PricewaterhouseCoopers with effect from the 2006 reporting year.

3.6 Information provision

CertiQ uses its website intensively to inform all stakeholders in the E-certificate system as thoroughly as possible about the procedure and any changes to it. CertiQ further operates a Service Desk for handling telephone queries. A diverse range of parties in the electricity market regularly contact the Service Desk. Electronic and telephone contacts keep CertiQ in close touch with the market and allow the company to respond quickly to any wishes that exist.

3.7 Organisation of CertiQ

CertiQ does not have any payroll employees; its staff are employed by TenneT TSO B.V. In 2006 the average number of hired employees amounted to 13.6 FTEs. The company also hired two employees from third parties. The number of employees at year-end 2006 was 11.7 FTEs (2005: 10.5 FTEs). At year-end 2006 no employees were hired from parties other than TenneT.

Developments in 2006

The number of sustainable electricity generators taking part in the certificate system grew further in 2006. As the certificate scheme functioned well, it was only adjusted on minor points. One of these changes took effect on 1 July and involved new requirements for the energy efficiency of waste incineration plants. The energy efficiency of these plants is determined every month and determines the subsidy rate.

However, the increase in the (relative) quantity of energy produced from sustainable sources, and indirectly therefore the success of the MEP grant scheme, turned out to have drawbacks as well. Rising costs prompted outgoing Minister of Economic Affairs Joop Wijn to announce on 18 August that he was temporarily closing the MEP scheme to applications submitted by new plants supplying sustainably generated energy. Wijn argued that given the number of plants registered with EnerQ at the time and the number of existing plants not eligible for MEP grants, it was already possible to achieve the 9% sustainable energy target. Minister Wijn left it to the incoming cabinet to decide on the future of the MEP grant scheme.

This decision led to unrest and insecurity in the market, causing a considerable fall in the number of applications with regard to new sustainable production plants in the next few months. In December 2006 the Ministry of Economic Affairs introduced a transitional arrangement for a limited category of generators, namely small-scale manure (co)fermenters. This grant scheme is implemented by SenterNovem and is based on Guarantees of Origin issued by CertiQ.

The cabinet's decision once more forced CertiQ to face facts: the company is highly dependent on government decisions. Nevertheless, calm was maintained within the organisation and we continue to look with confidence to the future. That confidence is based on the plans formulated by the new cabinet, as well as the concerns expressed by many people with regard to the environment.

Increasingly, market players are communicating to CertiQ that the demand for sustainable electricity and Guarantees of Origin from private-sector companies, the government and institutions is growing. The commitment to Socially Responsible Enterprise plays an important role in this development. TenneT TSO B.V., for instance, purchases Guarantees of Origin for 'greening' its grid losses (a process known as 'greening'). In 2006 a total of 460 GWh was 'greened' by TenneT. Additionally, TenneT TSO B.V. has 'greened' its own electricity consumption, also on behalf of EnerQ and CertiQ.

A milestone was reached in December 2006 with 55 million MWh of certified electricity generated in an environmentally friendly manner. This is equivalent to the average annual consumption of some 16 million households. The electricity in question is generated in the Netherlands from solar energy, wind power, hydropower, biomass or by combined heat and power (CHP) plants. In total, more than 2,500 production plants made a contribution.

Most of the certified electricity has been generated by CHP or biomass plants. Excluding CHP plants, 67.5% of the certificates issued for domestic production are for energy generated from biomass, 31.1% for wind energy, 1.3% for hydropower and less than 0.1% for solar energy.

The number of 'redemptions' in 2006 (i.e. Guarantees of Origin written off by traders as proof of supply of sustainable electricity to consumers) reached the expected level and was virtually the same as in 2005. The number of redemptions totalled 14,566,964 Guarantees of Origin.

4.1 **Biomass**

Over the past few years, the proportion of biomass co-fired in large-scale production plants has grown significantly. This trend came to a halt in 2006 due to a reduction of the MEP tariff applicable to this category which became effective on 1 July. As the tariff reduction was announced beforehand, generators were able to anticipate the changes. The co-firing of biomass peaked in the months preceding July 2006, only to drop sharply in subsequent months. Additionally, a shift to the co-firing of wood could be observed. This electricity generation method receives a higher subsidy rate than other types of biomass.

4.2 **Wind energy**

Wind energy produced large revenues in the autumn of 2006, as it was windier than average during this period. Because the technology used to generate wind energy improves every year, the capacity of modern wind turbines is continually increasing. In October the first Dutch Guarantees of Origin were issued for wind energy parks offshore. The total generating capacity of wind energy parks registered with CertiQ has now grown to over 1,500 megawatts.

4.3 Solar energy and hydropower

The contribution of solar energy and hydropower to the sustainable generation of electricity in the Netherlands is minimal. Fourteen small-scale hydropower plants are currently registered with CertiQ, and the total capacity generated by 609 solar energy generators amounts to a mere 12 MW, or less than 0.1% of the total quantity of sustainable energy produced in 2006. Because the electricity produced by these plants is considered highly sustainable but is also expensive compared to other types of power generation, EnerQ awards the highest subsidy rate to such plants.

4.4 Combined heat and power (CHP) plants

Following years of continuous growth, the number of certificates issued for CHP plants fell for the first time in 2006. This development is closely linked to new regulations which stipulate that CHP plants taken into operation more than 10 years ago must be de-registered with effect from 1 January 2006. The impact of this change was moderated by new rules introduced in August, which allowed CHP plants older than ten years to be re-registered under the CHP certification scheme, provided certain renovation criteria were fulfilled.

The Netherlands is one of the leaders in Europe when it comes to the use of CHP plants. The current installed CHP capacity accounts for approximately 40% of our electricity. In addition, CHP plays an important role in achieving the government's targets with regard to energy conservation and reducing CO₂ emissions.

4.5 International trade

In 2006 market players continued to use the Renewable Energy Certificate System (RECS) to facilitate international trade. RECS is a commercial European certificate system initiated by various market players. This system is very similar to the Guarantees of Origin system managed by CertiQ in the Netherlands. Dutch generators and traders who want to operate internationally can contact CertiQ to apply for RECS certificates. In the Netherlands, RECS certificates which are not also Guarantees of Origin may not be used as proof of the sustainable production of electricity.

4.6 Change in management

On 15 June 2006, Ms Gineke van Dijk was appointed Manager of CertiQ. In this position, she is responsible for the day-to-day running of the company. Former Managing Director Paul Dirix left the company. Ms Van Dijk now reports directly to the Board of Management of TenneT.

Results for 2006

5.1 Key figures

The number of generators that participate in the certificate system grew steadily in 2006, except for the category of CHP plants.

CHP plants taken into operation more than ten years ago (reference date: 1 January 2006) were de-registered by operation of law with effect from 1 January 2006. As a result, the number of certificates created for electricity produced by CHP plants dropped significantly compared to the previous calendar year (from 9,691,563 to 5,478,398 certificates).

The number of certificates issued for wind energy and biomass showed further growth in the year under review. However, the production of sustainable electricity from biomass dropped sharply in the second half of the calendar year, possibly due to a reduction in the applicable MEP subsidy rate. Despite a rise in the number of generators using solar energy plants, the contribution made by this type of energy to the total amount of electricity generated remained minimal.

The number of sustainable electricity certificates created in 2006 corresponded to 8,208,681 MWh. Imports of sustainable electricity decreased by a few percent compared to 2005 and totalled 9,110,088 MWh in the year under review. The total consumption of sustainably generated electricity amounted to 14,566,964 MWh. The stock of valid certificates increased by some 1 million between 1 January 2006 and 1 January 2007 to a total of 5,603,378 MWh.

5.2 Guarantees of Origin

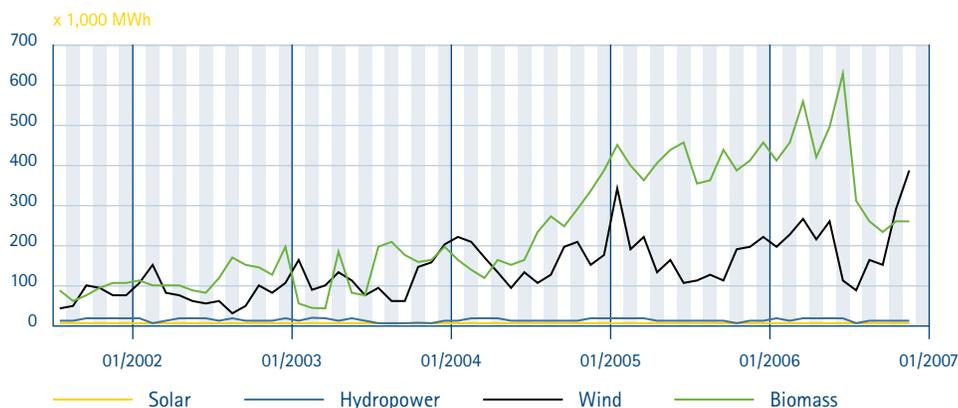
Table 2 Number of participants at 31 December 2006

| Number of generators | 31 December 2006 | 31 December 2005 |
|----------------------|------------------|------------------|
| Biomass | 128 | 100 |
| Hydropower | 14 | 13 |
| Solar | 609 | 490 |
| Wind | 944 | 903 |
| CHP | 858 | 1,212 |
| Total | 2,553 | 2,718 |

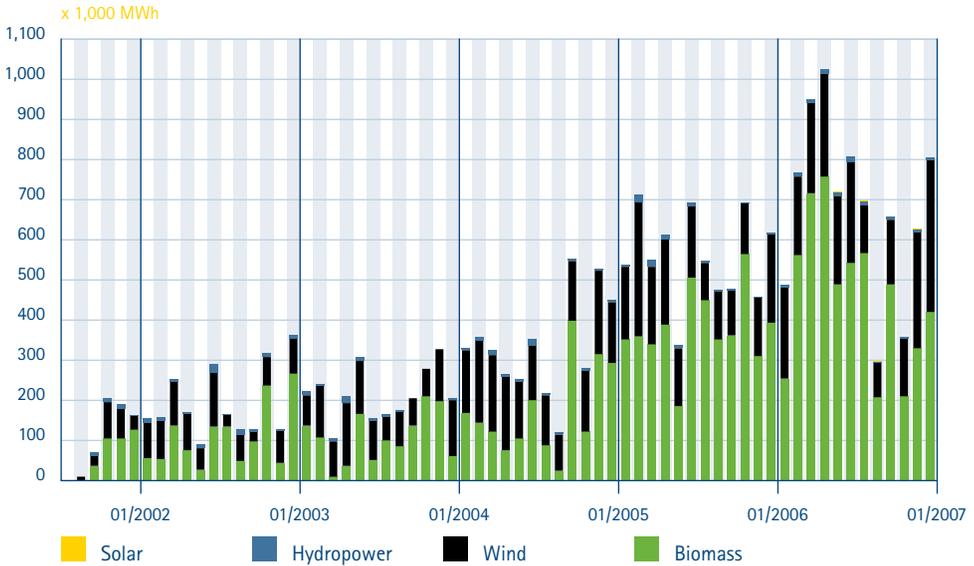
| Number of traders/aggregators | 31 December 2006 | 31 December 2005 |
|-------------------------------|------------------|------------------|
| Traders | 66 | 56 |
| Aggregators | 7 | 4 |
| Total | 73 | 60 |

The number of valid CHP registrations has dropped significantly, because plants taken into operation before 1 January 1997 are no longer eligible for certificates as of 1 January 2006. The difference between the number of valid registrations at year-end 2005 and at year-end 2006 is smaller than the number of de-registrations. This is mainly caused by new registrations for small-scale CHP projects.

Graph 1 Certified production of sustainable electricity in the Netherlands (from 1 July 2001 t/m 31 December 2006)



Graph 2 Number of certificates created for sustainable electricity produced in the Netherlands



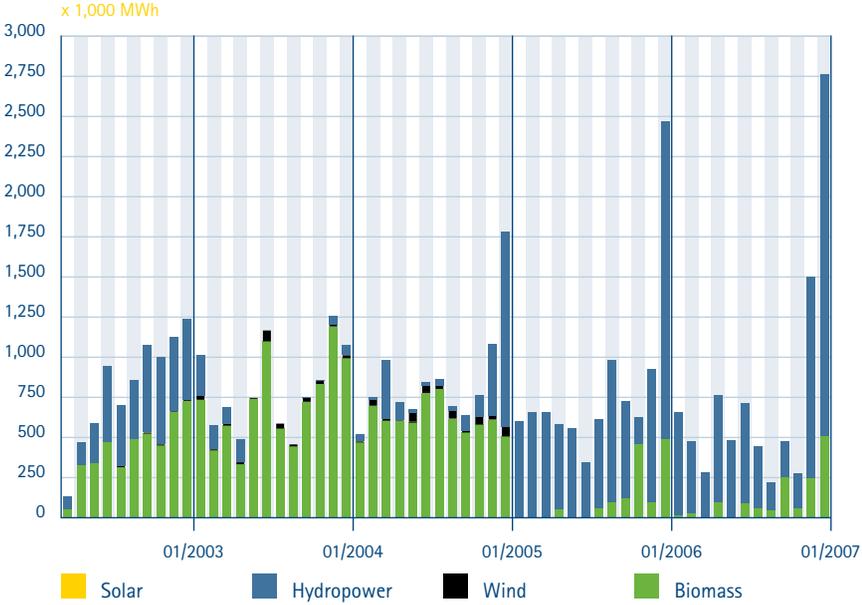
The above graph shows a steady growth of certified biomass electricity up to July 2006, after which time a significant decrease can be observed. Furthermore, an increase in the number of certificates created for wind energy can be observed towards the end of 2006. Developments in 2007 will have to show to what extent this increase can be attributed to the completion of the Netherlands' first offshore wind energy park.

5.3 Imported and exported Guarantees of Origin for sustainable electricity

Table 3 Imports and exports

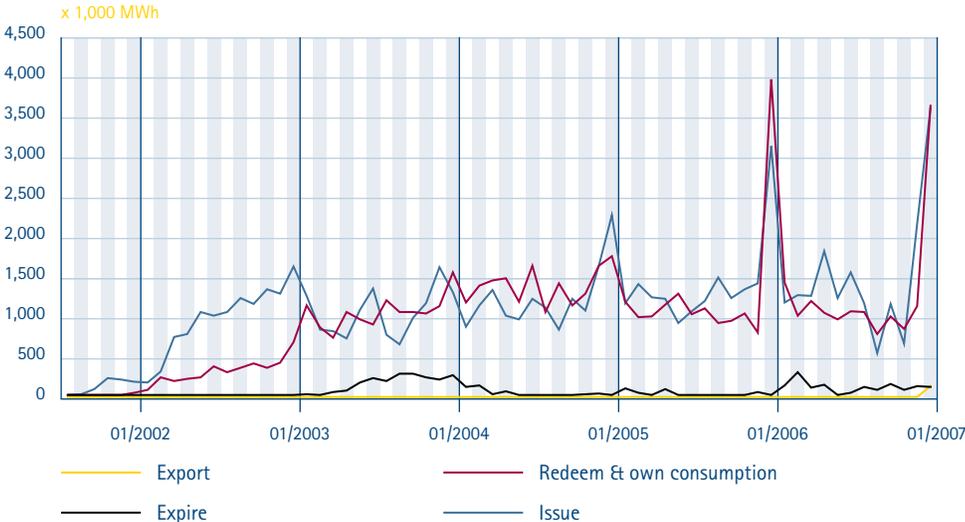
| Imports / exports in MWh | 2006 | 2005 |
|--------------------------|-----------|-----------|
| Imports | 9,110,088 | 9,798,980 |
| Exports | 186,289 | 25,977 |

Graph 3 Imports of sustainable electricity



This graph shows that imports of certificates in 2006 included a large proportion of electricity generated by means of hydropower, as was the case in 2005.

Graph 4 System activities involving sustainable electricity



The balance between newly created certificates and deliveries was maintained throughout 2006.

Graph 5 Transfers of certificates within the system

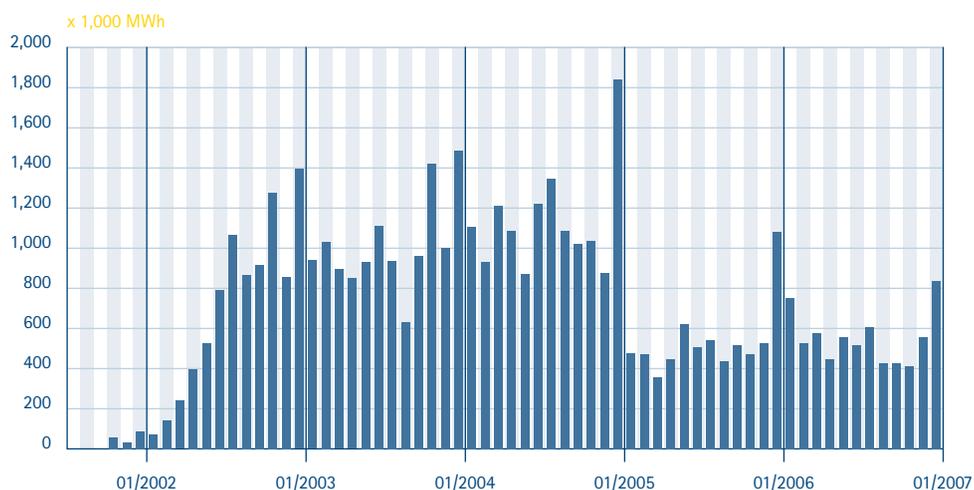


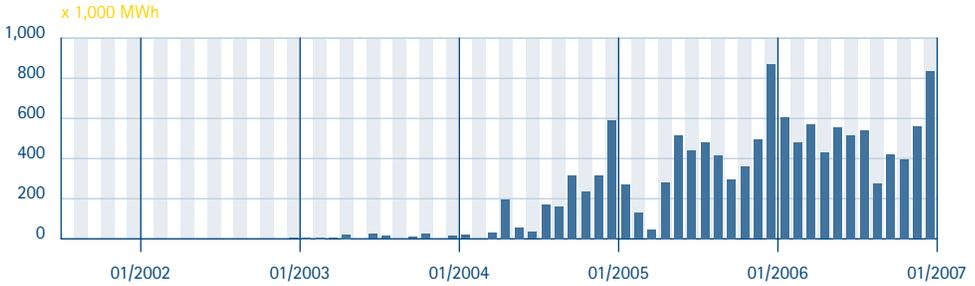
Table 4 Participants in RECS

| RECS | 31 December 2006 | 31 December 2005 |
|---|------------------|------------------|
| Number of generators (grid connections) | 203 | 197 |
| Number of traders | 22 | 23 |
| Number of aggregators | 0 | 0 |
| Number of trading platforms | 0 | 0 |

Table 5 Participants in EECS

| EECS | 31 December 2006 | 31 December 2005 |
|---|------------------|------------------|
| Number of generators (grid connections) | 1,695 | 1,506 |
| Number of traders | 54 | 66 |
| Number of aggregators | 4 | 7 |
| Number of trading platforms | 0 | 0 |

Graph 6 Transfers of RECS and/or EECS certificates within the system



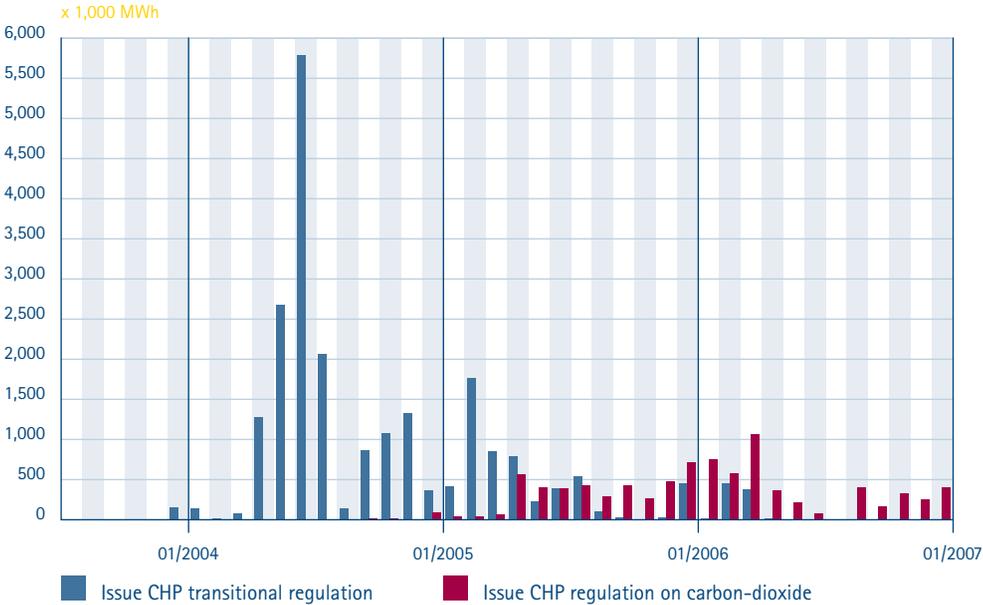
5.4 CHP-certificates

Table 6 Creation of certificates for CHP electricity (in MWh)

| Created CHP certificates | 2006 | 2005 |
|--------------------------|-----------|-----------|
| | 5,478,398 | 9,691,563 |

These figures concern both the certified production of CHP electricity under the scheme for certificates for combined heat and power generation, and the certified production of CO₂ neutral electricity under the carbon dioxide index scheme for CHP.

Graph 7 Number of CHP certificates created



5.5 Financial results

The table below shows CertiQ's income and expenses in 2006:

| | 2006 | 2005 |
|--|-----------|-----------|
| Invoiced revenues | 2,089,469 | 1,491,042 |
| To be settled | 154,825 | 1,338,983 |
| Revenues according to financial statements | 2,244,924 | 2,830,025 |
| Operating expenses | 2,215,489 | 2,839,215 |
| Operating result | 28,805 | - 9,190 |
| Financial income and expenses | - 28,805 | 9,190 |

Invoiced revenues increased in 2006 compared with 2005, mainly because discounts applied in the past were set at nil, which resulted in a higher net tariff for creations, transfers and redemptions of certificates.

Operating expenses dropped significantly in 2006 compared with 2005, mainly because fewer external staff were hired. This was partly a result of the completion of the 'CO₂ index' project.

Financial statements 2006

| | |
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Balance sheet at 31 December 2006 after appropriation of profit (in euro)

| Assets | Ref. | 31 December 2006 | 31 December 2005 |
|------------------------------|------|------------------|------------------|
| Non-current assets | | | |
| Tangible fixed assets | 1 | 978,776 | - |
| | | 978,776 | - |
| Current assets | | | |
| Receivables | | | |
| Receivables | 2 | | |
| Accounts receivable | | 521,177 | 335,032 |
| Accrued assets | | 45,221 | 7,842 |
| Amounts still to be received | | 373,642 | 218,817 |
| | | 940,040 | 561,691 |
| Cash and cash equivalents | | - | - |
| | | 1,918,816 | 561,691 |

| Liabilities | Ref. | 31 December 2006 | 31 December 2005 |
|-----------------------------|------|------------------|------------------|
| Shareholders' equity | | | |
| Share capital | 3 | 18,000 | 18,000 |
| | | 18,000 | 18,000 |
| Current liabilities | | | |
| Group companies | 4 | 1,859,333 | 389,989 |
| Accrued liabilities | | 41,483 | 153,702 |
| | | 1,900,816 | 543,691 |
| | | 1,918,816 | 561,691 |

Profit-and-loss account for 2006 (in euro)

| | Ref. | 2006 | 2005 |
|---------------------------------------|------|------------------|------------------|
| Revenues | 5 | 2,244,294 | 2,830,025 |
| Operating expenses | 6 | | |
| Costs for process automation systems | | 634,222 | 998,723 |
| Hired personnel | | 886,378 | 1,220,741 |
| Depreciation on tangible fixed assets | | 186,837 | - |
| General administrative expenses | | 508,052 | 619,751 |
| | | <u>2,215,489</u> | <u>2,839,215</u> |
| Operating result | | 28,805 | - 9,190 |
| Financial income and expenses | | | |
| Interest income | | - | 9,616 |
| Interest expenses | | 28,805 | 426 |
| | | <u>- 28,805</u> | <u>9,190</u> |
| Profit before tax | | - | - |
| Tax | | - | - |
| Profit after tax | | - | - |

Cash flow statement for 2006 (in euro)

| | 2006 | 2005 |
|---------------------------------------|-------------|-----------|
| Cash flow from operating activities | | |
| Depreciation on tangible fixed assets | 186,837 | - |
| Working capital: | | |
| - Change in receivables | - 378,349 | 756,583 |
| - Change in current liabilities | 1,357,125 | - 760,037 |
| | 1,165,613 | - 3454 |
| Cash flow from investing activities | | |
| Investments in tangible fixed assets | - 1,165,613 | - |
| Change to cash and cash equivalents | - | - 3,454 |

General notes

Nature of operations

TenneT, the administrator of the Dutch national transmission grid, was designated by the Minister of Economic Affairs under a ministerial decree as the party responsible for establishing an E-certificate system. Subsequently, TenneT established CertiQ B.V. to set up and run this system.

CertiQ exists to facilitate trade in sustainable electricity by issuing and managing production certificates. Production certificates are created for the production of electricity generated in an environmentally friendly manner and some of these certificates, known as Guarantees of Origin, may be traded by traders. Under the Environmental Quality (Electricity Production) Act (MEP), the certificates qualify for subsidies. Since 1 July 2003, CertiQ has also been issuing certificates for combined heat and power (CHP) systems. Similarly, CertiQ handles the issue of certificates under the RECS (Renewable Energy Certificate System), an international initiative aimed at agreeing unambiguous arrangements for facilitating trade in sustainable energy.

All shares in CertiQ are held by TenneT.

Notes to the cash flow statements

The cash flow statement has been prepared using the indirect method.

Accounting principles for the valuation of assets and liabilities

The financial statements were prepared in accordance with generally accepted accounting principles in the Netherlands. Unless otherwise stated, all amounts have been presented at face value.

Non-current assets

Tangible fixed assets – Tangible fixed assets are valued at their original acquisition price or manufacturing cost less straight-line depreciation. Any expected permanent impairment at the balance sheet date is taken into account. Depreciation is calculated as a proportion of the acquisition price or manufacturing cost on the basis of the asset's useful life.

Current assets

Accounts receivables – Accounts receivable are valued at face value, minus a provision for bad debts.

Accounting principles for determining the results

Revenues

Under the ministerial regulation covering Guarantees of Origin for sustainable electricity, the independent administrator of the transmission grid is allowed to charge the costs of running the production certificate system to the generators, customers, suppliers or traders. Each year CertiQ sets its tariffs after obtaining the advice of the Participant Council. Costs are determined on a historical basis and allocated to the fiscal year to which they relate. The difference between actual costs and invoiced revenues is incorporated into future tariffs.

Taxes

The tax presented over the result is the tax burden calculated according to the applicable tax rate, taking into account permanent differences between the calculation of profits for fiscal and commercial purposes.

Notes to the balance sheet at 31 December 2006 (in euro)

1 Non-current assets

Tangible fixed assets

Tangible fixed assets include software, which is depreciated over a period of 3 years. As of 2006, software developed by TenneT at the request of CertiQ is capitalised on the balance sheet and title to such software is transferred.

The book value of the tangible fixed assets can be specified as follows:

| Software | 2006 | 2005 |
|---|----------------|----------|
| At 1 January 2006 | | |
| Purchase value | - | - |
| Accumulated depreciation and impairment | - | - |
| Book value at 1 January | - | - |
| Capitalisations | | |
| Commissioning | 1,165,613 | - |
| Disposals at book value | - | - |
| Depreciations | 186,837 | - |
| Changes | 978,776 | - |
| At 31 December | | |
| Purchase value | 1,165,613 | - |
| Accumulated depreciation and impairment | 186,837 | - |
| Book value at 31 December | 978,776 | - |

2 Receivables

Amounts still to be received

This item concerns the difference between operating expenses and invoiced revenues. The difference will be set off against future tariffs.

3 Shareholders' equity

Share capital

The authorised capital of the company totals € 90,000 divided into 900 shares of € 100 each. Of these, 180 shares have been issued and paid-up.

4 Current liabilities

Accrued liabilities

This items concerns liabilities arising through invoices yet to be received and as yet unpaid holidays.

Off-balance-sheet rights and obligations

For the computerised certificate system developed by TenneT, there were still owed instalments totalling € 44,500 at the balance sheet date. These instalments have a remaining term of 6 months.

At year-end 2006, CertiQ had entered into investment commitments totalling € 469,742.

Together with TenneT and its subsidiaries, CertiQ is part of a fiscal unity for the purposes of corporation tax and VAT. Under the standard conditions laid down by the tax authorities at the time of establishment of the fiscal unity, CertiQ is jointly and severally liable for any corporation tax and VAT debts of the entire fiscal unity.

Notes to the profit-and-loss account for 2006 (in euro)

5 Revenues

Invoicing took place according to the set tariffs in the year under review. An amount of € 2,244,294 (2005: € 2,830,025) was required to cover costs. The debit difference with invoiced revenues will be covered by credits still obtainable in later years.

| | 2006 | 2005 |
|--------------------------|------------------|------------------|
| Revenues | 2,089,469 | 1,491,042 |
| To be settled in tariffs | 154,825 | 1,338,983 |
| Total | 2,244,294 | 2,830,025 |

The table below itemises the invoiced revenues.

| | 2006 | 2005 |
|--------------------------------|------------------|------------------|
| Registration fees | 18,600 | 18,875 |
| Membership fees | 182,475 | 278,821 |
| Creations of certificates | 821,184 | 386,811 |
| Transfers of certificates | 158,112 | 104,437 |
| Transfers of trading platforms | - | 200 |
| Redemptions of certificates | 908,614 | 700,511 |
| Creations from imports | - | 196 |
| Other income | 484 | 1,191 |
| Total | 2,089,469 | 1,491,042 |

Revenues from membership fees decreased compared with 2005, mainly because several aggregators terminated their accounts in connection with the structural changes implemented in 2005. In addition, more market players stayed below the capacity threshold of 50 MWh and therefore qualified for a lower tariff.

Revenues from creations, transfers and redemptions of certificates increased in the year under review, mainly because discounts applied in the past were set at nil, which resulted in a higher net tariff.

6 Operating expenses

Costs of process automation systems

This item concerns payments for the use of automation and communication systems for the purpose of registrations and settlements. These systems are provided by TenneT. The costs decreased because the title to software developed by TenneT at the request of CertiQ is transferred as of 2006. This results in a transfer to depreciation charges on tangible fixed assets.

Hired personnel

The company does not have any payroll employees. The average number of hired employees amounted to 13.6 FTEs in 2006. These employees were hired from TenneT TSO B.V. (11.6 FTEs) and from third parties (2.0 FTEs). The number of employees at year-end 2006 was 11.7 FTEs (2005: 10.5 FTEs). At year-end 2006, no employees were hired from third parties.

Personnel costs decreased compared with 2005, mainly due to the completion and implementation of the 'CO₂ index' project which resulted in a decrease in the number of external workers hired.

The costs are itemised below.

| | 2006 | 2005 |
|------------------------------------|----------------|------------------|
| Personnel hired from TenneT | 665,714 | 595,809 |
| Personnel hired from third parties | 220,664 | 624,932 |
| Total | 886,378 | 1,220,741 |

General administrative expenses

The general administrative expenses include all costs of accommodation, consultancy and office requisites and travel and subsistence expenses. The decrease in 2006 compared with 2005 is due mainly to lower costs for accommodation.

Arnhem, 5 April 2007

Board of Management of CertiQ B.V.

Other information

Appropriation of profit

The appropriation of profits is governed by Article 29 of the Articles of Association, which states:

- 1 The disbursement of profit under the provisions of this article shall take place after it has been determined through approval of the financial statements that the disbursement is justified.
- 2 Profits shall be placed at the free disposal of the General Meeting of Shareholders.
- 3 The company may make payments from disburseable profits to shareholders and other entitled parties only insofar as its shareholders' equity exceeds the amount of issued capital plus the reserves that must be kept by law.
- 4 A deficit may be charged to the reserves required by law only insofar as permitted by the law.

Auditor's report

To the Board of Management and shareholder of CertiQ B.V.

Report on the financial statements

We have audited the accompanying financial statements 2006 of CertiQ B.V., Arnhem as set out on pages 29 to 38 which comprise the balance sheet as at 31 December 2006, the profit and loss account for the year then ended and the notes.

The directors' responsibility

The directors of the company are responsible for the preparation and fair presentation of the financial statements and for the preparation of the management board report, both in accordance with Part 9 of Book 2 of the Netherlands Civil Code. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with Dutch law. This law requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Oordeel

In our opinion, the financial statements give a true and fair view of the financial position of CertiQ B.V. as at 31 December 2006, and of its result for the year then ended in accordance with Part 9 of Book 2 of the Netherlands Civil Code.

Report on other legal and regulatory requirements

Pursuant to the legal requirement under 2:393 sub 5 part e of the Netherlands Civil Code, we report, to the extent of our competence, that the annual report is consistent with the financial statements as required by 2:391 sub 4 of the Netherlands Civil Code.

Utrecht, 12 June 2007

PricewaterhouseCoopers Accountants N.V.
Drs. C.J.A.M. Romme RA

Key events in 2006

January

- CertiQ introduces a more balanced tariff structure, under which certificates can be produced or redeemed at the same tariff with effect from 1 January 2006.
- With effect from 1 January, all combined heat and power (CHP) plants taken into operation more than ten years ago must be de-registered by operation of law. Partly as a result of this, the creation of CHP certificates in 2006 dropped below the level of previous years.

July

- New rules governing certificates and grants for waste incineration plants, with an increased focus on energy efficiency, take effect. From now on, an incremental system applies to waste incineration plants, whereby a plant receives a higher grant under the Electricity Production (Environmental Quality) Act (MEP) when it has achieved a higher energy efficiency level in a particular month.
- With effect from 1 July, the MEP tariff for large-scale biomass plants is decreased and the tariff for wind power plants is adjusted.

August

- The Ministry of Economic Affairs introduces new rules allowing CHP plants older than ten years that meet certain renovation criteria to be re-registered under the CHP certification scheme.
- On 18 August the Minister of Economic Affairs closes the MEP grant scheme until further notice for all categories of sustainable electricity. This decision results in a reduction in the number of applications concerning sustainable production plants received by CertiQ in the following months.

October

- The first Dutch certificates for wind energy parks at sea are issued.

December

- CertiQ reaches the milestone of 55 million certificates issued for electricity produced by sustainable methods or through combined heat and power generation.
- The Ministry of Economic Affairs publishes a transitional scheme for electricity generation by small-scale manure (co)fermenters in anticipation of a future decision on the MEP grant scheme. This grant scheme is to be implemented by SenterNovem and is based on Guarantees of Origin to be issued by CertiQ. CertiQ and SenterNovem now collaborate actively on the practical implementation of this scheme.

CertiQ B.V. is a subsidiary of TenneT TSO B.V., the Dutch Transmission System Operator and administrator of the national transmission grid.

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