



ANNUAL REPORT 2011

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1. Composition of management bodies

1.1. Board of Directors

The Board of Directors has the following members:

- Mr Dominique Maillard, permanent representative of RTE Réseau de Transport d'Electricité SA and Chairman of the Board of Directors;
- Mr Roeland Goethals, Vice-Chairman of the Board of Directors;
- Mr Francesco Del Pizzo;
- Mr Daniel Dobbeni;
- Ms Alison Barbara Kay;
- Mr Karl-Wolfgang Neldner;
- Ms Brigitte Peyron;
- Mr Carlo Sabelli;
- Mr Christopher Train.

The general meeting of shareholders of 18 December 2008 appointed Ms Peyron, Mr Maillard, Mr Goethals and Mr Dobbeni as directors.

Ms Kay and Mr Train were appointed as directors on the basis of unanimous written decisions by the shareholders of 27 May 2009.

Mr Del Pizzo, Mr Neldner and Mr Sabelli were appointed by the general meeting of 26 November 2010.

The Board of Directors' meeting of 19 December 2008 appointed Mr Maillard as Chairman and Mr Goethals as Vice-Chairman of the Board of Directors.

None of the directorships are remunerated and all shall expire immediately after the ordinary general meeting for 2011.

The Board met five times in 2011 and discussed technical, financial, economic and strategic issues.



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1.2. Daily management responsibilities

The Board of Directors' meeting of 22 June 2009 appointed Mr François Boulet as head of operations, with the title Chief Executive Officer, until 31 December 2011. The Board of Directors' meeting of 29 June 2011 extended Mr Boulet's appointment to 31 December 2012.

The Board of Directors' meeting of 22 June 2009 also appointed Mr Olivier Bronckart as Chief Operating Officer.

1.3. Auditor

The general meeting of 18 December 2008 appointed Klynveld Peat Marwick Goerdeler – Bedrijfsrevisoren/Réviseurs d'Entreprises, represented by Alexis Palm, as the auditor of the company for a period of three years, expiring at the ordinary general meeting of 2012 deciding on the annual accounts for the year ended 31 December 2011.

The remuneration for the auditor was fixed at €12,250.00 for the financial year, following annual indexation in line with the consumer price index.

2. Main events during the year

Coordination of Electricity System Operators (Coreso), which launched operations in February 2009, is the first technical coordination centre to be shared by multiple transmission system operators. Coreso has notably enhanced the operational coordination of transmission systems in the Western Europe region in response to new challenges. The development of renewable energies, which are by nature intermittent, and the increase in cross-border exchanges within the European electricity market make electricity flows increasingly variable. In this area, Coreso has demonstrated a high level of reliability and expertise. Its added value for identifying risky situations for the electricity system, which can only be detected by having an overview extending beyond the national scope of each individual transmission system, is now essential.

Specifically, Coreso provides the control centres of participating transmission systems with forecasts about the security of systems within its observation zone. To that end, Coreso carries out security analyses, simulating various scenarios and suggesting corrective actions. Coreso coordinates exchanges between the various national control centres, which remain responsible for implementing these actions in their respective systems, with a view to obtaining the agreement of each control centre for the proposed corrective actions.

Expanding the action zone

In November 2010, the original Coreso shareholders (Elia, RTE and National Grid) were joined by Terna (Italy) and 50Hertz (eastern Germany and Hamburg). As a result, much of the first half of 2011 was spent setting up Coreso coordination services for the two new shareholders.

The Coreso operational team grew from 12 people in early 2011 to 15 by July and eventually 18 by 1 January 2012. Much emphasis was placed on training not only the new Security and Coordination Engineers in Coreso's activities across the Central West Europe



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zone, but also the entire team in the extended area of activity. Tailored training sessions were provided by Terna and 50Hertz engineers. As at 1 July 2011, Coreso had the appropriate skills and tools to provide D-1 coordination services to 50Hertz and Terna.

As regards security analysis tools, performance was improved significantly by the upgrading of facility architecture and the major software update by RTE on the file collection tool. The time needed to collect and analyse the 24 relevant D-1 files was halved, despite the analysis area doubling in size.

Enhancing coordination

In March 2011, a Memorandum of Understanding was signed between the 15 European TSOs involved in coordination initiatives (Coreso or TSC) with a view to enhancing collaboration between those initiatives. This paved the way for greater data exchange (snapshots provided by certain TSC TSOs) and the synchronisation of D-1 study procedures, enabling Coreso to participate and represent its shareholders in the TSC daily teleconference.

Collaborative efforts with all TSOs in the Central West Europe zone also led to the signing of a shared procedure for the coordination of phase-shifting transformers in the zone, in November. Coreso is playing a central role in this regard on behalf of its shareholders. It is responsible for conducting general analyses and suggesting the most appropriate control measures where any need for coordination arises. The procedure – the first of its type to be established between TSOs and coordination centres in Europe – is one of a number of measures put in place to alleviate the growing pressure on grids following the closure of eight nuclear power plants in Germany in March 2011.

Major incident management

In December, Coreso established a new service to support its shareholders in the event of a major incident. Although the primary aim of Coreso is to prevent major incidents from happening in the first place, those incidents may still occur following a chain of unforeseen events. In such cases, Coreso's tools provide it with an overview of the grid situation in Europe, which is relayed to its shareholders via regular reports and contact between operators.

In late 2011, a new tool (DADS) was rolled out to provide Coreso with a real-time overview of the grid and its observation area. The tool was specially configured to provide general indicators, giving operators information on not only the real-time situation, but also deviations from forecast data. As such, the tool also helps to anticipate prospective risks on a given day as far as possible and to keep coordination agreements concluded with TSOs up to date.

Operating results

In 2011, Coreso provided D-1 analysis and coordination services every day for the third consecutive year. The situations for which Coreso provides added value are more frequent following the extension of the action area.

Indeed, the Eastern Germany area is under significant stress given the substantial generation of wind power, making coordination between German TSOs and their neighbours vital. Coreso



proposed a number of solutions which are now regularly put into practice. Coreso's added perspective also enables 50Hertz to better calibrate necessary redispatching levels.

The area around the northern border of Italy is also under significant structural stress as Italy usually imports at maximum capacity. Given that such stress is closely linked to international exchanges in Central and Northern Europe, Coreso's added perspective and proposals are especially relevant to Terna.

3. Outlook for 2012

Consolidation

2011 saw the establishment of new procedures and extension into new territories. In 2012, these aspects must be consolidated and a joint effort must be made to extend services to Terna and 50Hertz.

The following will be treated as priorities:

- the intraday procedure for Terna and 50Hertz;
- improving the use of and DADS to get maximum output;
- enhancing collaboration with TSCs on certain aspects, including data quality;
- improving support procedures in the event of a major incident, including participation in a joint crisis drill with several European TSOs.

Inclusion of renewable energies

Coreso is going to get more involved in the management of variable renewable energies. The very rapid increase in the penetration of these energy sources is increasingly demonstrating the need for a regional overview to help understand their impact on the European electricity grid. Coreso aims to establish a service with a view to helping its shareholders safely manage the grid while taking this key aspect into account.

4. Subsidiaries

The company has no subsidiaries.

5. Events after the end of the year

No significant events occurred after the end of the financial year.



6. Notes to the annual accounts

6.1. Introduction

Accounting of activities

Key figures

In thousand €	31 December 2011	31 December 2010
EBITDA	584.20	569.97
EBIT	143.85	212.73
Net result (before taxes)	134.42	199.85
Net result (after taxes)	72.94	110.95
Solvency ratio	48.05%	46.27%
Liquidity ratio	71.44%	56.75%

Solvency = equity / total assets

Liquidity = current assets / short-term liabilities

6.2. Balance sheet

Fixed assets

Fixed assets include the following:

In thousand €	2011	2010
Preliminary expenses	44.50	63.49
Intangible fixed assets	94.16	130.82
Property, plant and equipment	1,611.43	1,725.69
TOTAL FIXED ASSETS	1,750.09	1,920.00

The investments made in 2011 relate to property, plant and equipment totalling €270.43 thousand.

Most of the investments consist of IT equipment used in the development of Coreso's activities.

The net book value of fixed assets was €1,750.09 thousand and includes cumulative depreciations at year-end 2011 totalling €948.83 thousand.



Current assets

'Trade debtors' accounts for €448.86 thousand and mainly relates to billing totalling €361.94 thousand as part of an operational services contract between Coreso and its shareholders. The remainder of €86.92 thousand represents other invoices issued that are not yet due.

'Other amounts receivable' relates mainly to recoverable taxes totalling €44.91 thousand.

Cash comprises liquidities worth €503 thousand.

Deferred charges and accrued income

This item mainly comprises operating expenses to be deferred to financial year 2012 (€32.18 thousand), such as rent and insurance.

Equity

As at 31 December 2011, the share capital amounted to €1,000 thousand, represented by 15,210 shares and fully paid up upon the establishment of Coreso.

Following the positive results for the financial year 2011 (€72.94 thousand), a €3.65 thousand appropriation to the legal reserve was booked. The remainder of the distributable profit (€69.29 thousand) has been carried forward.

In 2010, a subsidy of €68.78 thousand was received from the European Union in connection with the Twenties project. This amount was booked as a subsidy and transferred to the results in proportion to the depreciation of the investments in question.

An amount of €13.76 thousand has already been booked to the 2011 results. As at 31 December 2011, the remainder amounted to €53.87 thousand.

Equity amounted to €1,337.27 thousand after the appropriation of the 2011 results.

Debts

In 2011, the three initial Coreso shareholders decreased their subordinated loan by €375 thousand. Consequently, the total loan at year-end 2011 was €600 thousand.

'Trade debts' at the end of 2011 totalled €465.49 thousand.

They relate mainly to invoices not yet due totalling €113.79 thousand and invoices receivable totalling €322.43 thousand.

Tax liabilities amounted to €3.70 thousand and relate to the VAT return for December 2011.

Social security liabilities cover a number of provisions such as holiday allowances, bonuses and personnel insurance. The total amount for this item is €331.28 thousand.



Accrued charges and deferred income

This item mainly comprises subsidies receivable totalling €41.16 thousand.

6.3. Income statement

Operating income

Total operating income can be subdivided as follows:

In thousand €	2011	2010
Operational fees	4,282.62	2,858.42
Other operating income	527.97	595.05
Total	4,810.59	3,453.47

In late 2010, the original shareholders in Coreso (Elia, RTE and National Grid) were joined by Terna and 50Hertz, from which point Italy, East Germany and Hamburg formed part of Coreso's area of activity. Consequently, operational services rose from €2.86 million to €4.29 million.

'Other operating income' encompasses income relating to the 'D-2 country merge' activity, the 'market coupling' activity and the recovery of withholding tax on personal income.

Operating expenses

The 'services and other goods' section can be subdivided as follows:

In thousand €	2011	2010
Operating charges	1,976.96	1,075.59
RTE Elia Services Agreement	215.18	219.39
Total	2,192.13	1,294.98

Operating charges total €1,976.96 thousand for 2011 and relate to the costs of rent, consultants, IT maintenance, representation, and so on.

The increase is mainly due to the rise in consultancy fees (+€565 thousand) and IT maintenance costs (+€225 thousand).

The 'RTE Elia Services Agreement' item consists of costs invoiced by Elia and RTE under various recurrent service provision contracts for Coreso.



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Personnel expenses

This item comprises charges associated with remuneration, i.e. salaries, social benefits and social security costs. The rise from €1,588.44 thousand (2010) to €2,034.17 thousand (2011) results from the increase in the number of full-time equivalents.

Depreciation

Depreciation of property, plant and equipment totals €440.35 thousand and is calculated according to the valuation rules approved by the Board of Directors, as indicated in the annual accounts.

Financial income

Financial income (€4.01 thousand) was generated by cash investments made in 2011. An amount of €13.76 thousand relating to the subsidy has been entered under this item.

Financial charges

Financial charges amounted to €27.19 thousand, of which €20.68 thousand pertains to a subordinated loan contracted with the shareholders until 30 December 2011 and totalling €975 thousand. As at 31 December, the loan amount had a balance of 600 thousand.

Taxes

In 2011, the profit before tax was €134.42 thousand. After applying notional interest and taking into account disallowed costs, Coreso's tax expense in 2011 was €61.48 thousand.

Net profit

For 2011, Coreso booked a profit after tax of €72.94 thousand.

6.4. Profit for the financial year available for appropriation

At the general meeting of 20 April 2012, the Board of Directors will propose the following distribution of profits:

In thousand €	2011	2010
Profit for the financial year	72.94	110.95
Profit carried forward from the previous year	199.93	94.53
Appropriation to the legal reserves	3.65	5.55
Distribution of the dividend	0.00	0.00
Result to be carried forward	269.22	199.93

7. Description of the risks and uncertainties facing the company

Financial risks

The funding needs of Coreso are met by the contributions of its shareholders. To meet its needs, Coreso draws up a budget and reviews it in good time with its shareholders, which are also its main clients. In the event of unforeseen funding needs, Coreso can appeal to its shareholders for the release of extra cash at very short notice. Since its shareholders also incur an inherent financial risk, there is a residual financial risk for Coreso if any of its shareholders default. Coreso's residual risk remains very low when its shareholders are taken into account.

Data quality risk

In its role as coordinator of Transmission System Operators (TSOs), Coreso performs analyses of cross-border electricity flows, advises TSOs on congestion management, and contributes to Security of Supply (SoS) operations. To perform these tasks as effectively as possible, Coreso relies heavily on data from all TSOs concerned and on this data being complete, validated according to acceptance criteria, consistent and accurate and delivered on time.

In addition to this dependency on data quality, Coreso will be exposed to a new risk in 2012, i.e. the change in the format of data required from TSOs (from ASCII to XML). This change could diminish data quality during the transition from the old format to the new format, and lengthen the time it takes for data collection and processing, with the added effect that the XML format allows more information to be transmitted than the ASCII format. This format change will be subject to appropriate testing before going live.

To manage the overall risk of data quality, in 2011 the Coreso shareholders signed a Memorandum of Understanding (MoU) with TSOs that were members of the TSO Security Cooperation (TSC), an association of 11 European TSOs, with a view to boosting collaboration – especially on data quality.



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ICT risks

Coreso is also highly dependent on the continuity of its ICT infrastructure to deliver its services in good time.

The management of the ICT infrastructure, including software applications and their hosting and data storage, are being outsourced to external suppliers and service providers. A unique supplier acts as the first line of support for troubleshooting any (hardware) issues. Contracts with ICT providers all include guarantees on long-term support and maintenance services for all critical ICT components.

The power supply of ICT infrastructure is also backed up by uninterruptible power supply systems in Brussels and Lomme (France).

HR risks

Coreso's strength lies in the quality of its staff, exposing the company to various risks, i.e. inadequate skill sets, the strain of work shifts inherent to Coreso's monitoring activities, and FTE turnover. Coreso relies on the pool of experts provided by its shareholders to fill any sudden gaps in human resources and has drawn up plans for joint training with engineers employed by its TSOs.

Risks related to regulatory changes among European TSOs regarding coordination

The liberalisation of the European electricity market has meant consolidation of international power exchanges, which has ensured overall security of supply in Europe but has also led to a need for increased cooperation and coordination among European TSOs.

Although decisions will still need to be taken by TSOs on the legal form, roles and responsibilities, governance, tools and expertise of future European coordination entities, there is a risk that Coreso may not be sufficiently prepared for the future cooperation and coordination needs of the market and its players. Coreso can mitigate this risk by proactively interpreting needs, adapting itself to be able to deliver solutions to those needs and positioning itself as a trusted long-term partner.

Other risks

Coreso realises that there may be other risks of which the company is unaware, or that risks currently deemed insignificant may become more significant.

8. Internal audit

In early 2011, CORESO underwent an internal audit for the first time.

In line with the most significant risks and uncertainties listed for the company (see section 7), the audit examined all measures taken by Coreso to ensure the continuity of its services (especially in the event of a blackout). This Business Continuity Planning study focused on three areas:

- o IT infrastructure, the availability of which is extremely critical for calculating and monitoring congestion;
- o other resources needed for various operations, such as operators and their skills, and buildings and their power supplies;
- o the management of crises liable to threaten the availability or effectiveness of the above resources.

Given Coreso's ongoing monitoring duties, the audit examined the adequacy of the service continuity guarantees potentially provided by Coreso to its shareholders (i.e. the minimum recovery time of those services in the event of failure). However, some recommendations were made, primarily with a view to improving the effectiveness of Coreso's crisis management system (e.g. consolidating the procedures and instructions to be followed in the event of a crisis, regular testing of those procedures, and proactive training of personnel in this regard). The implementation of those recommendations is monitored directly by the Coreso Governance Board.

Coreso is playing an increasingly active, even decision-making, role in security of supply at European level and managing congestion between interconnected grids (i.e. real-time coordination of actions taken by independent system operators). As a result of this role change, Coreso may need to provide better assurance of its service continuity in the near future. With further regard to Coreso's ongoing monitoring duties, internal audits are scheduled every two years to address major risks for the company (see section 7). This frequency may well change based on equally changeable needs.

9. Research and development

Coreso is involved in two European projects:

- 'Transmission System Operation with Large Penetration of **Wind** and Other Renewable **Electricity** Sources in **Networks** by means of Innovative **Tools** and Integrated **Energy Solutions**' (TWENTIES): Coreso serves as a platform demonstrating new tools for the coordination of operations with a view to addressing the impact of renewable energies on the grid;
- 'Innovative tools for the future coordinated and stable operation of the pan-European electricity transmission system' (iTesla): Coreso will provide its expertise to aid the development of the tools needed for effective future coordination.

20 April 2012

Roeland Goethals
Vice-Chairman



Brigitte Peyron
Director

