



TenneT TSO B.V.

# Annual Report 2021

# Contents

<b>About TenneT TSO B.V.</b>	<b>3</b>
<b>Management Board Report</b>	<b>6</b>
<b>Financial statements</b>	<b>27</b>
Consolidated financial statements	27
Company financial statements	65
Notes to the company financial statements	67
<b>Other information</b>	<b>73</b>
Independent auditor's report	74
Glossary	82

\* These sections reflect the director's report as mentioned by Part 9 of Book 2 of the Dutch Civil Code.

# About TenneT TSO B.V.

The publication of our annual report comes at a time of great uncertainty in the world due to developments in Ukraine. Apart from the consequences this may have for the European energy system, the war in Ukraine has a big impact on all of us, also on an individual level. We sympathise deeply with all those affected by the imposed violence.

TenneT TSO B.V. (hereafter 'TenneT') is the electricity transmission system operator (TSO) with activities in the Netherlands. Securing supply is our core task and main responsibility. We aim to ensure a safe, reliable and secure supply of electricity, 24 hours a day, 365 days a year.

TenneT has a critical role to play in the impactful journey to a reliable, affordable and zero-carbon energy system. As an electricity transmission system operator, we are the backbone of the green energy transition and need to upgrade and expand our grid as well as our grid operations to serve changing energy needs. A commitment to responsible growth is guiding our approach to these challenges, alongside our purpose, principles and strategy with clear objectives.

## Our purpose

To connect everyone with a brighter energy future.

## Our promise

Lighting the way ahead together.

## Our strategy

The energy transition is one of the most impactful challenges facing society and energy supply. To fulfil our role in the energy transition, we are working on a responsible growth based on four strategic pillars:

- Energise our people and organisation: with an inclusive and safe environment where people enjoy coming to work. We will build a leadership model that empowers, inspires and creates growth opportunities, so everyone can perform at their best and work as one team.
- Secure supply today and tomorrow: by maintaining the grid to meet reliability targets and operating it effectively. We will design solutions to balance electricity supply and demand in the future, while meeting societal objectives and realising our infrastructure projects as promised.
- Drive the energy transition: as a green grid operator and thought leader, developing innovative instruments and playing a key role in the energy data world.
- Safeguard our financial health: by ensuring a regulatory framework to support our strategy and by delivering a return in line with what our capital providers expect, as well as by raising the necessary external financing.

## Our task

The vast majority of our activities are regulated by the ACM in the Netherlands. Our core tasks are to:

- Ensure a secure and continuous supply of electricity as the key objective of our operations.
- Provide transmission services by transporting electricity along the high-voltage grid from where it is produced to where it is consumed.
- Provide system services to balance supply and demand of electricity in the Netherlands.
- Facilitate a smoothly-running, liquid and stable electricity market and support the large-scale, energy transition to renewables.

## Our principles

The energy transition is a challenge that requires new ideas, new technologies and new behaviours that build on the strong foundations we have laid.

## Connection

We are involved with and work actively with other parties. The challenge of the energy transition requires us to do things differently and collaborate with a wide range of partners. We know that we do not have all the answers ourselves.

## Ownership

We are accountable for our words, actions and decisions.

## Courage

We are honest, open and clear about what we think. We dare to make decisions, take ambitious initiatives and are willing to learn from mistakes.

## Stakeholders



Employees



NGOs



Governments and  
policy-makers



Customers



Suppliers



Regulators



Shareholders



Energy market  
participants

## Input



Extensive knowledge  
of and experience with  
operating the system and  
integrating energy markets



Cables, lines, stations, offices and  
interconnectors



Our skilled and  
motivated employees



Energy, natural environment and  
materials to build, maintain and  
operate our grid



Regulatory revenue,  
(Green) Financing



Strategic partnerships  
and our engagement with (project)  
stakeholders

## How we create value



Energise our  
people and  
organisation



Secure supply  
today and  
tomorrow



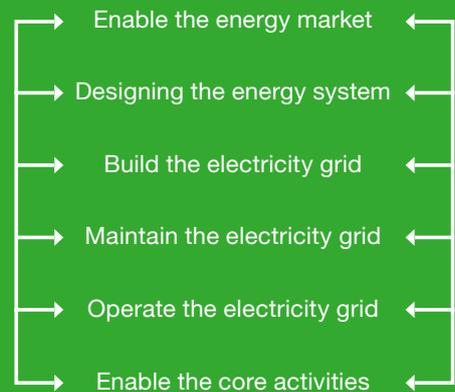
Drive the  
energy  
transition



Safeguard  
our financial  
health



## How we operate



## Output

## Outcome & Impact



### Deliver a high security of supply

With our knowledge and experience in operating the system and following up on our ambition to further integrate European energy markets, we are able to provide a secure supply of energy.



### Ensure critical infrastructure for society

With our assets, we ensure that we are able to fulfil our core activities and tasks. We keep building and maintaining our grid to realise the critical infrastructure, which helps us drive the energy transition and supports the economic development and human wellbeing of the people that live in our service area.



### Create a sustainable workplace

Our goal is to create a working environment where our people feel safe and valued. We strive to bring out the best in our people to help them develop themselves and organise this in a way that energises them.



### Create value to transition to a low carbon economy

We want to drive the energy transition, because we believe we are able to make a significant contribution. Realising our investment programme and innovation portfolio will contribute to the climate targets in the Netherlands and Germany, which is essential on the pathway to a low carbon economy.



### Secure a solid financial performance and investor rating

TenneT is a regulated company, that has an important societal role. That is why we strive to make choices considering the impact on societal costs. To finance our grid investments, we raise the necessary financing and meet the expectations of our capital providers.



### Solve societal challenges with stakeholders and through partnerships

We believe in the power of cooperation. Working together will help us achieve the next steps with respect to the energy transition faster and better. Furthermore, in realising our future grid, we engage with our stakeholders to consider societal objectives.



# Management Board Report

TenneT plays a vital role in society. By ensuring the supply of electricity, we make a fundamental difference to the people working and living in the areas we serve. Our work involves a wide range of stakeholders. These include our shareholder, local communities, our employees, regulators, investors, NGOs, politicians, the media, customers, suppliers and other European TSOs.

## Our performance

How we want to create long term value for society is defined alongside the six outputs / outcomes of our value creation model.

### Deliver a high security of supply

TenneT has a clear and critical task: to ensure the continuous supply of electricity end-users across the Netherlands, 24 hours a day, 365 days a year. This goal has inspired us since the company was founded in 1998. Our commitment to providing a high level of security of supply continues to drive us today, but we must do so in a far more complex, dynamic and challenging energy landscape.

With our knowledge and experience built over the last decades, we are dedicated to providing a secure supply of electricity, today and for decades to come. Our end-users expect a near-perfect 99.99% supply of electricity. But maintaining this level is challenging in combination with the European roadmap to achieve carbon neutrality by 2050.

The targets to reach this goal continue to grow. For example, in July, the European Union announced its “Fit for 55” package of legislation, committing to a 55% reduction in overall carbon emissions by 2030. As a large share of total greenhouse gas emissions in the EU comes from the energy sector, TenneT can play a key role in enabling this goal.

While green electricity has many advantages and will be key to achieving Europe’s climate goals, its supply by nature is intermittent. The volumes are steadily increasing in terms of wind energy – especially from the North Sea – as well solar power. But we cannot just simply connect more and more renewable energy production facilities to the grid. The characteristics of renewable energy sources (RES) concerning variability and uncertainty impacts generation dispatch, system balancing, system stability and the power flow pattern in the network. As a result, the challenge is not just to build a RES-dependent grid, but also to keep it

in balance and stable at all times so we can continue to provide a high security of supply - today and tomorrow.

It is important to make responsible choices when building a greener energy future. We do not only need to make sure our grid is prepared for more RES to be connected, we also have to find flexible solutions and ensure the stability of our grid. We aim to secure supply of electricity when the sun does not shine or the wind does not blow and at the same time making the transition to a climate neutral economy.

Although we are proud of our high reliability level, we regret some instances of interrupted supply. An example of this relates to a interruption at the Soest substation which impacted over 50,000 households for about 20 minutes. A root cause analysis was performed to learn from this incident and for future references. Despite the interruptions that occurred in our grid, we are please to have been able to sustain our level of grid availability of the onshore grid in 2021 with a comparable availability performance we had in 2020.

Although our grid availability in 2021 is among the highest reliability levels in the world, we do not take it for granted. Around the clock, TenneT has many dedicated people working to make a high security of supply possible. The focus of this work takes place at our control centres where we operate the grid, monitor the stability and performance of the system and coordinate across borders. As a European TSO, we are part of an interconnected European electricity grid. This ensures a stable electricity supply throughout the continent. In 2021, there were two events that split the European interconnected system in two, where the European cooperation was essential to control and minimise the impact of these events. The 2021 system splits were a warning sign that the integrated European system is being stretched close to its stability limits by the increased demands of the energy transition.

These usually rare events occurred twice in 2021 – on 8 January and 24 July. The 8 January split caused a temporary separation of the grids in North-western and South-eastern Europe, while the summer separation temporarily split the grids of France and the Iberian Peninsula.

Fortunately, TSOs across Europe - including TenneT – are well prepared for such events with emergency and restoration plans. Following a larger disturbance in Continental Europe on 4 November 2006, new awareness and stringent countermeasures have been introduced to mitigate the consequences of system splits. These include the European Awareness System (EAS), whereby TSOs exchange real-time information in order to be able to react immediately in case of unusual system conditions. This allows TSOs to rapidly manage such events in a coordinated manner and limit their consequences. On 8 January and 24 July, TSOs resynchronised the two separated areas within very short time frames.

The learning from these events in 2021 is not only that the increased pressure on our system can destabilise security of supply, but also that cross-border collaboration and a European interconnected system is essential for our security of supply. It also shows the need for new, strategically located and reliable flexible demand and supply solutions to balance increased volatility in the grid.

The effects of changing climate and weather patterns also stressed our grid and the security of supply. The extreme weather events in the summer of 2021 caused four of our pylons in the Netherlands to collapse, while not leading to a disruption of our supply. This is due to the way we operate our grid as we secure our grid based on the n-1 principle. This ensures that in the event of one unplanned outage, our supply remains secure.

In 2021, we faced additional challenges in our grid due to growing congestion. This occurs when a high feed-in of renewable energy sources – for example on very windy days – cannot be fully accommodated due to the limited available transmission capacity of the high-voltage grid. This endangers our security of supply as electricity cannot be transmitted across overloaded powerlines.

In these instances of congestion, TenneT needs to activate remedial actions, including costly redispatch measures. This means we ask electricity providers from e.g. conventional power plants to change their power feed-in specific locations to ensure that we do not have overloads and that the system balance is maintained. This upward

and downward regulation in the network takes place on almost a daily basis.

As the amount of RES being connected to the grid grows and conventional power plants are being decommissioned, such as coal-fired units, temporary congestion scenarios become more common, and redispatch costs tend to rise. Managing these challenges, while also securing supply and driving the energy transition, is all part of the balancing act TenneT has to perform.

As we look ahead, we must continue to ensure a high security of supply, despite the increasing complexity of running a climate neutral energy system. Innovation will be critical to meet this challenge, not only related to more effective and efficient use of our assets, but also to boost our system operations and improve market design. To achieve this, grid reinforcement, market facilitation and operational improvements will be essential for securing supply in the future.

### Ensure critical infrastructure for society

Building, maintaining and operating the high-voltage electricity grid that millions of homes and businesses depend on is the most important business activity of TenneT. As Europe strives to become climate neutral by 2050, the electricity infrastructure at the heart of the energy transition is undergoing a fundamental redesign, which presents significant challenges for TenneT in the years ahead.

TenneT has a clear and constant societal task: to provide society with a secure supply of electricity, while driving the energy transition and facilitating the European cross-border electricity market. Our extra high-voltage electricity grid transmits electricity over long distances, across sea and land, to help power homes and businesses. With the materials and products we use to build and maintain our grid, such as our cables, pylons, (sub)stations and interconnectors, we create the critical infrastructure that people and businesses depend on every day.

While providing power supply is crucial today, the development and transformation of our electricity system will play an even more critical role in the next decades in the transition to a clean, climate-neutral world. The European energy transition is one of the biggest challenges of our times with a goal to make Europe the world's first climate-neutral continent by 2050 and reduce emissions by 55% by 2030.

The scale of this challenge means that we must step up to expand our grid and grow our organisation more rapidly. At the same time, we need to consider how we can grow in a responsible way. This not only includes building assets to reinforce our grid to make it future-proof, but also means exploring other solutions, such as making smarter use of our existing assets. By using new technology, engaging in partnerships and using agile working methods and other innovative approaches, we can build a greener energy future through other means than grid expansion alone.

We must consider how to develop our critical infrastructure in a sustainable manner. That means acting responsible when it comes to the materials we use to build and maintain our assets, especially if they are scarce, such as virgin copper. In addition, the number of new employees we can onboard and integrate into our organisation within a single year is finite. Furthermore, there is limited space to build our assets in the natural landscape.

Realising our grid investments is characterised by three different phases. The Initiation phase starts with identifying capacity constraints in the electricity grid. At this stage, it is decided to either accept the capacity constraint or to solve it with new or upgraded infrastructure. Thereafter, the planning and licensing phase begins, where other aspects are considered, such as the spatial planning of the project. After a final investment decision has been made, permits are requested and final design details are formalised. Several tenders are issued or framework contracts are used to award a contract for the engineering, construction and commissioning phase of the project. When the project is administratively closed, it is formally completed. The majority of the project time currently relates to the first two phases, particularly planning & licensing, which may take up to eight years. The actual construction of assets takes significantly less time, usually two to four years. In order to reach the 2030 and 2050 CO<sub>2</sub> reduction targets primarily the planning and licensing phase needs to shorten significantly.

Offshore wind plays a crucial role in the energy transition as the European Commission aims to connect 300 GW by 2050. The North Sea will play a crucial role, acting as a wind energy powerhouse for Europe. The Netherlands have set ambitious offshore energy goals: by 2030 alone, the Netherlands want to achieve 11.6 GW of capacity. To ensure that we can deliver the infrastructure that supports these goals, we are striving to connect increasing volumes of offshore wind energy to the onshore grid in the most environmentally friendly ways. To guarantee optimal

efficiency, we use standardised building blocks of 2 GW HVDC connections.

### Achievements in 2021

- TenneT has already started the tender for the offshore grid connection and HVDC system in the Dutch IJmuiden Ver wind area. It is expected that this contract will be awarded by the end of 2022. The engineering for the land station was tendered recently and the cable contract will follow during 2022. The first 2 GW IJmuiden Ver connection is planned to be operational in 2028.
- In June, the second jacket of TenneT's offshore connection system for the wind farm Hollandse Kust (Zuid) was installed, 22 kilometres off the coast of The Hague. The almost 3,000-tonne jacket, anchored to the seabed by six approximately 60-metre piles, is the foundation for one of two transformer stations for the Hollandse Kust (Zuid) windfarm, each with a capacity of 700 MW. The connection for the wind farms will be ready for use in 2022, when offshore wind energy will be fed into TenneT's onshore Randstad 380 kV Zuid ring for further transmission to electricity consumers.
- In the final quarter of 2021, the jacket of Hollandse Kust (Noord) was installed, an offshore transformer grid connection system, 18 kilometres from the coast of Egmond. The planning for this project is to be completed in 2023.
- In January 2022, due to the weather events related to storm Corrie, an adrift cargo vessel collided with the jacket of Hollandse Kust Beta. Fortunately there were no people working there at that moment. We are currently investigating the effects of this collision, to get a clear picture of the exact damage to the jacket so that we can make a plan for necessary repairs.
- We started the construction of a new 380 kV connection between Borssele and Rilland. This power highway is essential for transmitting electricity from existing and future wind farms in the North Sea to the southwest of the Netherlands. In addition, the new connection is important for the exchange of electricity with Belgium. The Borssele to Rilland section is one half of a longer corridor that will extend to Tilburg.
- The project Noord-West 380 kV relates to the construction of the new 380 kV overhead connection between Eemshaven and Vierverlaten (Groningen) and a new 380 kV substation in Vierverlaten. The project is well on track to realise the scheduled in service date in 2023. After a long and intense planning and permitting phase, the construction is developing in accordance with the best case project schedule.

In addition to investment in new infrastructure, we are increasing our investments in maintenance. Ensuring that our grid is fit to operate at its maximum capacity is key to our ongoing commitment to secure supply today and in the future and to our maintenance strategy. However, as our grid becomes larger and more complex, and considering that some of our older assets were installed in the 1950s and 60s and even before, our maintenance work presents a growing logistical challenge and at increasing costs. The focused application of our maintenance efforts is helping to maintain the availability of our grid and to do more with scarce resources.

We are developing smarter ways to assess the condition and performance of our assets, which allows us to forecast more accurately when maintenance and replacement work is needed. We also use data analytics to predict failures, which helps us manage the right timing for planned outages to perform maintenance work. By maximising the accuracy of knowing when and where maintenance is needed, we can minimise our outage windows and match it with the appropriate people and available equipment. This reduces the likelihood of unplanned failures in the system, which cause a reduction in the available windows for planned maintenance.

TenneT employs a systematic approach to i.e. optimising maintenance efficiency, using integral planning. The aim is to get the most out of our resources and people and to find the smartest balance between building and maintaining the grid.

Integral planning involves a wide range of departments at TenneT, ensuring that all key stakeholders with an impact on outage planning are involved. Through close crossfunctional team involvement, detailed plans are made for outage windows where essential maintenance needs to be performed. The Supply Chain Management team is involved to gain knowledge about the market availability of critical materials, technologies and skilled resources. The results are collated and a priority is assigned to each task. This enables us to plan and execute our maintenance in an optimal way, both internally and also with our suppliers and contractors.

Next to integral planning there are other initiatives on an operational level that support optimal execution of our activities, such as the Delivery Booster. This initiative is focused on boosting the efficiency of resource allocation and people for each maintenance project, by taking a holistic view across the year and taking the smartest approach based on availability of people, resources,

project priority and location. Our analytical approach to maintenance is proving to have a positive effect, as 2020 and 2021 were excellent years for overall availability of our infrastructure.

An important part of our work to modernise our onshore grid is to replace our ageing substations. To that end, we are engaged in a programme to replace around 140 high-voltage substations by 2031 in the Netherlands. In addition, a further 210 high-voltage substations will be upgraded or expanded. The use of EU-303 framework contracts with our suppliers aims to enhance the speed and efficiency of this work, allowing for faster procurement, standardisation, innovation and joint growth.

### Create a sustainable workplace

We regard our dedicated internal and external employees as our most valuable assets. Our talented teams are at the heart of our efforts to meet the challenges ahead of us, as we accelerate on our path to contribute to the European energy transition targets of 2030 and 2050.

However, the scale of work required to achieve these targets and ultimately build a climate-neutral Europe, requires the deployment of large amount of new talent. The scale and urgency of this need will grow particularly fast in the second half of this decade.

We must be responsible in the way we grow, especially regarding our people. We can't simply keep adding more people to our organisation, as more people doing the same will not transform TenneT's ways of working to the next level. Our growth needs to be realised in a responsible manner and at a pace that achieves the output we want to deliver in the best possible way.

Not only does the demand for talent make it increasingly hard to find the people we need – especially in specialist technical roles – but it is also becoming more challenging to properly onboard and integrate new people into the organisation.

The TenneT transformation that was initiated a few years ago aims to enable us to drive the energy transition in a better way and become a more effective, innovative and exciting place to work. Responsible growth is important in this process, as it is about enabling TenneT to achieve its business and societal objectives in a way that is future proof. In the years following, we have worked hard to achieve this.

We are convinced that now is the time to use our ingenuity and entrepreneurial spirit to increase our delivery capacity and capability. We aim to reduce bureaucracy and administrative burdens, streamline our business attract the right talent and install better performance management processes. We want to build leadership that empowers, inspires, and creates opportunities for growth and learning. This will allow us to attract more and diverse talent and become the preferred customer of our supply partners.

And as we progress, we aim to ensure more efficient structures for onboarding new talent at a sustainable rate. This will prepare the foundation we need in the years ahead.

In addition, we are evaluating how we will manage new ways of working post-COVID. The current 'new normal' way of working provides an opportunity to assess the approaches that will deliver the most engagement and satisfaction for our employees and the most value for TenneT. This includes both plans for remote work and smart ways of collaborating virtually. These topics and the social implications on our employees and organisation are regularly discussed with the respective works councils and TenneT leadership.

Despite the challenges to recruit a significant number of people in a highly competitive labour market and the difficulty of onboarding and integrating large numbers of people during COVID-19, we were able to welcome a lot of new employees to TenneT in 2021. Nearly all needed to be onboarded virtually, posing a significant challenge that we mastered well considering the circumstances.

In certain roles finding talent can be especially difficult. For some specific technical functions, talent is extremely scarce. In other roles, such as technicians working in the field, it can take up two to three years to train someone to the required level, not to mention the recruitment time itself.

The challenge of recruitment makes it essential to bring out the best in our current workforce, with additional training for their current role and to help them develop to new positions. This also helps to retain the right people.

Central to the success of TenneT is embedding and broadening our leadership capabilities to enable our leaders to be in the driver seat of our transformation, building new ways of working that are open, curious, courageous, and focused on learning and growing. To this end, we have commenced our Lead Your Team programme. With an emphasis on people and change management, this programme is based on the competencies our leaders

and all employees will need to meet the challenges ahead. A mandatory requirement for all leaders of the new TenneT departments, Lead Your Team is designed to be a shared journey, helping to embed our principles of ownership, courage and connection, and collaborating with leaders towards a new culture with new behaviours and ways of working.

TenneT has an important role to play with respect to the energy transition. The ambitions of the governments and society we serve are very high, and the pace TenneT and others in the energy sector are required to deliver on this is increasing rapidly. The transition towards a brighter energy future comes with new demands, more complicated services and projects and an accelerating growth of our organisation and involved contractors. In this context, safety needs our energy, now more than ever before. To do this, we launched a new safety strategy with concrete actions for the upcoming years. This safety strategy does not only focus on occupational safety, but also on psycho-social, external and electrical safety.

Our safety vision 2026 consists of four pillars: solid basis, safety culture, contractor management and continuous improvement. For each of these pillars, focus areas with corresponding actions have been defined. These actions include the enhancement of a pro-active safety culture and the implementation of an occupational health and safety management system. Furthermore, attention will be paid to contractor management with focus on creating partnerships and improving safety performance within supply chains. Another pillar aims at increasing the learning potential from positive and negative events in order to ensure continuous improvement. To push our safety culture, we introduced our Safety Leadership Program, with the motto 'Safety needs our Energy', to enhance a pro-active safety culture within TenneT. We see this as an essential step. It provides a behavioural framework in order to develop a positive and stimulating environment in which all our employees and (sub)contractors can work safely. This is supported with a program to make it an integral part of our leadership, behaviour and processes.

Inclusion and diversity (I&D) is critical for TenneT to attract, retain and develop talent and ensure future success. TenneT aims to reflect the society it serves, by being inclusive as an employer, promoting diversity and making our people feel safe and supported at work. In our sector, where we face the technological and engineering challenges of the energy transition, diverse talents and perspectives help us find the solutions and responsible growth we need.

We believe that an inclusive workplace culture is the prerequisite for diversity. We also strongly believe and experience that inclusion and diversity leads to more innovation and creativity as well as sustainable success. Employees feeling accepted, heard, worthy and safe are emotionally more engaged.

In 2021 our CEO Manon van Beek signed a new diversity charter on behalf of TenneT. This is a manifesto in which organisations declare their commitment to more diversity in the workplace. The aim is to overcome differences between employees and to recognise and utilise the talents of all individuals. The diversity charter also gives us a platform where we can exchange ideas and learnings with other companies.

### Create value to transition to a low carbon economy

As a European TSO, we contribute to a greener energy future by driving the energy transition and ensuring our high-voltage grids are future proof. This allows us to operate an electricity system relying on renewable energy sources which is the core of our purpose: to connect everyone to a brighter energy future.

For us, a greener energy future does not mean just building more assets on land and sea. The sharp increase in demand for renewable electricity, the required pace and conditions of a grid that facilitates these developments, challenge us to consider how to realise growth in a responsible way. On the one hand, we need to deliver a decarbonised energy system to drive the energy transition, with the assets that enable a clean energy future. On the other hand, we need to build, maintain and operate our assets in a responsible way, taking into account our impact on nature, climate and social aspects. We aim to make responsible choices to ensure that we drive the energy transition as well as lead as a green grid operator.

Grid losses inevitably occur during power transmission and are equal to the difference between electricity fed into the grid and the withdrawal. As the length of our high-voltage connections increases, the amount of grid losses grows. To reduce our gross carbon footprint, we 'green' our electricity consumption with the use of guarantees of origin. In 2021, we compensated for 100% of the grid losses in the Netherlands.

Our approach to reduce our carbon footprint is to decrease emissions where possible, to 'green' our emissions where this is not possible and to compensate for our carbon footprint as the final option. To reduce our carbon footprint we have adopted a new action plan to lower the environmental impact of our mobility, encouraging our employees to travel less and if they do, to use green transportation. Due to the COVID-19 pandemic our employees have travelled less and many have worked from home, which resulted in mobility emission savings. For employees working on our projects in the field, we are making our vehicle fleet more sustainable with electric vehicles and plug-in hybrids. We have introduced a new mobility policy to incentivise our employees to lease electric cars, encouraging them to reduce their emissions.

Sulphur hexafluoride ( $SF_6$ ) is a gas used by TSOs in high-voltage (sub)stations and distribution systems. This gas is used as a highly effective insulator and extinguisher in switching installations, allowing these installations to be more compact which is often necessary in built-up environments.  $SF_6$  is also a greenhouse gas, over 23,500 times more polluting than  $CO_2$ . Although  $SF_6$  accounts for approximately 1% of our climate footprint, any leakage is damaging to the environment, which is why we try hard to minimise and avoid leakages across our grids. We have also accelerated our efforts to explore alternative solutions in some of our projects. For example, substation Maasbracht will include alternative solutions to  $SF_6$  that are being developed in close consultation with the market. As such, we are also working with some of our suppliers in an innovative partnership to develop  $SF_6$  free Hybrid-Gas Insulated Switchgear (H-GIS) solutions for our extra high voltage connections. We stimulate this research as the market needs to be stimulated to find an alternative for  $SF_6$ .

As we build, maintain, and operate our assets in the natural landscape, we have an unavoidable impact on nature. However, we put in significant effort to reduce our negative impacts and create positive impacts as well, aiming to reduce our net impact to zero. To aid this process, we developed a new code of conduct in 2021 which sets out rules and guidelines on how our maintenance and construction works must be carried out in accordance with the Nature Protection laws, to ensure species of flora and fauna are protected. We track the number of environmental incidents and the litres of oil leaked from our cables. We monitor and track our environmental incidents, which includes incidents except for  $SF_6$  related incidents as we gain more meaningful insights from that perspective by the total volume of leaked  $SF_6$ .

We are developing a roadmap for nature to support us in identifying opportunities where positive nature measures can be implemented. The roadmap makes it easier for us to identify high impact positive measures and thereby scale up our positive impacts to reach our nature ambition.

Furthermore, in our ambition to mitigate our negative impacts and where possible also create positive impacts, we request in our investment plans to include a 'Commitment to Nature' paragraph. This includes a description of the anticipated impact on nature, mitigating actions to minimise impact and measures to create a positive impact on nature. We are pleased that in 2021 more investment documents for our projects contained a paragraph on their 'Commitment to Nature'.

In 2021 we stopped using weed-killing pesticides (such as RoundUp) on our high voltage stations and replaced them with new and experimental solutions, such as lawn tiles that allow vegetation to grow through them or succulents. The use of succulents inhibits the growth of weeds, but also lowers the site temperature and stimulates biodiversity.

Another biodiversity-boosting measure is the use of sinus mowing for the grasslands at our sites. This method of phased mowing was developed with the Dutch Butterfly Conservation and aims to increase the biodiversity of insects and pollinators. With sinus mowing the vegetation is mowed in a pattern that follows the sinus wave leaving a part of the vegetation (ca. 40%) intact.

Birds are an important concern for biodiversity around our assets which is why we have several bird-proofing measures along the entire length of new and upgrades lines. As our land stations near the coast can be a fenced and predator-free safe haven for birds, we have developed a coastal breeding birds' protocol. We are also assisting Staatsbosbeheer and SOVON Dutch Centre for Field Ornithology with their research on rare species that breed in our high-voltage pylons. Furthermore, specialists from SOVON identified the most risky high voltage connections for bird collisions which helps us gain insight.

We aim to boost habitat development around our cable and line connections. For example, we are adapting some cable corridors to accommodate low-growing heather in Boxmeer which fosters the habitat of a rare butterfly species called Ilex Hairstreak. Along the A7 motorway between Bolsward and Heerenveen, where TenneT is laying a 30 km-long cable connection, we have sowed flowers on several strips to create a 'honey highway'.

Offshore, we aim for nature inclusive design when constructing our assets. For example, we have installed fish hotels at the foundation of Hollandse Kust Noord. We have also implemented Eco scour protection as a pilot in our Hollandse Kust Zuid project. We have replaced the layer that is usually made of granite with calcareous rocks, which provides a safe breeding space for fish.

We need copper, steel, aluminium, and many other raw materials to expand our grid. Although we cannot do without these materials, we aim to reduce our impact through circularity, re-using raw materials and components as much as possible, and minimising waste. We focus on copper, as it is becoming increasingly scarce, and we have a high dependency on it in our operations.

We have raised our circularity requirements in some of our tenders. For example, our suppliers must provide evidence of which percentage of their materials are recycled. Circularity requirements like these will also be part of our sustainable tendering toolkit.

We intend to reduce the use of virgin copper and non-recyclable waste by 25% in 2025. Our Noord-West 380 KV project is an example of this approach. Based on meetings with contractors to discuss the causes of non-recyclable waste, an important source was identified – the heavy-duty fabric used to create temporary roads at construction sites. After usage, these fabrics can be difficult to reuse or recycle. However, with BAM and the University of Delft, we investigated new applications for this waste stream, which can help further reduce our non-recyclable waste from this type of project.

Finally, we are also pursuing a pilot project aimed at boosting the recycling of key materials so they can be re-used for our assets. These efforts concern copper and oil in particular. For example, we are exploring circular solutions with our transformers, allowing us to re-use certain parts of transformers when they are decommissioned, including the re-use of transformer oil. The pilot project will be the basis for a framework agreement to be published, negotiated and awarded in 2022.

### Have a solid financial performance and reputation

The energy transition is accelerating and the electricity infrastructure at its heart needs to be prepared. The European Union raised its climate ambitions and presented a new legislative package of proposed measures – "Fit for 55" – aimed at reducing greenhouse gas emissions by 55% in 2030. This raises the bar from the 49% reduction previously announced.

Plans and ambitions in the Netherlands now far exceed the earlier ambitions of the Dutch Climate Agreement. In the context of these ambitious targets, it is up to us to make the right investments for sustainable long-term growth.

Monitoring and managing the performance of our business is based on underlying financial information and not on IFRS-reported financials. Underlying financial information involves the recognition of regulatory receivables and payables, which – based on the current regulatory framework – can be recouped or are to be returned through future grid tariffs (see section 2 of our consolidated financial statements). Under IFRS, reimbursement/settlements through future grid tariffs may not be taken into account. As a result, the balance of any expense or income is not recognised as a regulatory asset or a liability under IFRS.

### Results

In 2021 underlying revenue increased due to increased costs for energy and capacity, redispatch and balancing, which will be settled in future tariffs and therefore increase underlying revenue. Under IFRS future settlements are not included in revenues and therefore the IFRS revenues and IFRS EBIT are significantly lower in 2021. A large part of the increase in grid expenses is caused by the increased electricity prices at the end of the year. Redispatch costs also increased due to planned outages, necessary to realise our grid extension and improvement projects. Revenue further increased as a result of investments in new assets over the past years. The regulatory regime ensures that we are compensated for the depreciation of our investments and that we make a return on the capital invested in our regulatory asset base.

Underlying EBIT decreased from EUR 238 million in 2020 to EUR 227 million in 2021. While the higher revenue is mainly linked to the pass-through of higher grid expenses, the decrease in EBIT is explained by higher personnel expenses, higher operating expenses and higher depreciation due to increasing assets.

We continue to invest in our grid in order to maintain a high security of supply and to facilitate the energy transition. Capital expenditure (capex) totalled EUR 1,550 million in 2021 and increased by EUR 269 million compared to 2020 (EUR 1,281 million). The investments in 2021 related for a significant part to the following projects under construction: offshore projects (Hollandse Kust projects) and the onshore projects North-West 380kV and South-West West 380kV.

Our large-scale investment programme requires broad, sustainable and timely access to financing with a good balance between equity and debt to maintain our solid credit ratings. To that end, we are very pleased that the Dutch government announced to contribute EUR 4.25 billion of equity capital.

In 2021, the Autoriteit Consument & Markt (Authority for Consumers and Markets (ACM)), set the Dutch tariff method for TenneT for the new regulatory period 2022-2026. Going forward, the ACM changed the methodology for establishing the risk-free rate of the Weighted Average Cost of Capital (WACC). Although the ACM decided to maintain the current real WACC system, due to financing issues grid operators face in relation to the energy transition, it lowered its inflation estimate from 1.8% to 0.9%. This means a 0.9% lower asset inflation and an additional adjusted real WACC of 0.9%-points. The adjusted real WACC for new assets will be 1.9% over 2022-2026

The ACM increased the beta factor which is a measure for the systematic risk of assets of TenneT's Dutch offshore investments to reflect the risk of the size of the investment portfolio in relation to the existing regulated asset base. This increases the WACC for TenneT TSO NL's offshore investments by 0.5%, resulting in the adjusted real WACC for new assets offshore of 2.4% in the years 2022-2026.

The ACM conducted a European Benchmark study (TCB18) resulting in an 89.1% efficiency score. The ACM also decided to honour the grace period of 15 years that started in 2010. This means TenneT's efficiency score will decline from 97.28% in 2022 to 89.1% in 2025, amounting to an average efficiency percentage of 92.37%.

TenneT TSO B.V. appeals against the efficiency score applied by the ACM, the change of the remuneration method for execution costs of System Operations from a rolling-forward system to a fixed budget and the disapproved costs of the Borssele projects.

### Solve societal challenges with stakeholders and in partnerships

As a European TSO, the main societal challenge we can help overcome, is to mitigate climate change by enabling the energy transition. Driven by ambitious European and national goals, the energy transition will require a fundamental redesign of our energy system and radical new thinking.

The energy transition presents big challenges for the usage and expansion of the electricity grids and the dynamic stability of the power system. The scale and complexity of the task means that conventional solutions are no longer adequate. We need new ideas and fresh thinking, with multiple stakeholders collaborating to find solutions and create value. This is why TenneT works together with a wide range of strategic partners, both within and outside the electricity domain. And our collaborations are not solely focused on technical innovations. We draw on the power of partnerships to achieve each of our four strategic pillars and also to ensure we grow responsibly.

A representative sample of our collaborative efforts is provided below.

In our aspiration to drive the energy transition, we aim to work with a wide range of other ambitious players to find solutions that will enable us to design an energy system fit for a climate neutral Europe, while also helping us to grow responsibly by making smart use of our existing grid.

InnoSys 2030 seeks new ways to increase grid utilisation as a valuable complement to grid extension. Today, our assets are operated with a considerable safety margin in case an element fails (n-1 security). The joint research project InnoSys 2030 searches new ways on how to optimise grid utilisation by load flow optimisation and real-time measures in case of failures

In order to drive the energy transition while maintaining a high level of grid reliability, TenneT needs to modernise the heart of our power system – the control room – to make it fit for the future. The Control Room of the Future programme (CROF) is at the leading edge of technology in the energy transition, with a goal to move from the manual control of independent technologies to a model that combines the best of manual and automated systems. For this ambitious vision, various projects need to be defined that include methodologies and software development, grid data, grid measurements, network model, network security assessment, decision support, communication interfaces and operator training. The CROF roadmap includes the development of these and other projects until 2031. The CROF programme will be a rich learning and development environment, combining the expertise of our subject-matter experts with the latest insights from our partners, including suppliers and universities.

Together with many other Dutch critical infrastructure organisations, in a coalition called ‘De Brede Welvaart’, we are working together to make the economy more sustainable and resilient and to create long-term value. The way we contribute to and report on this work is included in our value creation model. The societal impact of this work is described in the respective chapters in this report. We are also working together with other infrastructure companies in the ‘Groene Netten’ coalition in the Netherlands on several topics such as biodiversity and circularity. Together with other European TSOs we have joined forces via the Renewables Grid Initiative (RGI). Here we are collaborating with them with respect to how we can develop our offshore agenda in a nature-friendly manner. Via the RGI, we are a member of the OCEaN (Offshore Coalition for Energy and Nature) coalition where we work together also with NGOs on this topic.

Our partnership with the European Network of Transmission System Operators for Electricity (ENTSO-E) is important in our efforts to secure supply for today and tomorrow. ENTSO-E is a collaboration of 39 TSOs from 35 countries who work together in a number of key areas. These include drafting technical and market-related network codes, coordinating plans to develop European infrastructure and promoting technical cooperation between TSOs. As member of ENTSO-E, TenneT is helping to build a more integrated European electricity market, contributing to a sustainable energy landscape, and promoting electricity in Europe is affordable, sustainable and secure.

In April 2021, TenneT, Gasunie and the Dutch DSOs published the Infrastructure Outlook 3050 (II3050). The report assesses the needs of the future electricity system, including integrated system planning, cooperation across borders, connections between offshore and onshore and sources of flexibility, such as hydrogen and batteries. All are needed to meet the requirements of a new, smart, and affordable energy system to be built between 2030 and 2050. Some of the important conclusions: the infrastructure for electricity must be expanded on a large scale, a nationwide hydrogen transport pipeline network is needed, infrastructure for heat and CO<sub>2</sub> must be constructed and more speed is needed since the current lead times for investments in the grid lead to bottlenecks. The fact that the Dutch government announced a plan to adapt existing natural gas transport pipelines for the transport of hydrogen (‘hydrogen backbone’) is a direct result of the insights presented in the II3050.



Sharing expertise and insights with educational institutes plays an important part in building knowledge for our sector and also educating the new generation of technical talent. It is also important to help us access the latest thinking and technology to unlock new solutions for the energy transition. TenneT builds a wide range of close partnerships with the academic world and research centres. These include partnerships with the TU Delft and Radboud University Nijmegen, which are focused on specific areas of research, and a wide range of further alliances with academic institutions including: TU Eindhoven; Hogeschool van Arnhem & Nijmegen and Hogeschool van Amsterdam.

We provide opportunities for refugees through apprenticeships and vocational training. To find qualified refugee talents in the Netherlands, we partnered up with the Refugee Talent Hub – which link refugees and employers, with paid employment as the goal. In 2021 TenneT employed seven newcomers through a work experience position. Of the newcomers who started in 2019 on such a position, two have found permanent employment at TenneT in 2021. TenneT provided a learning path ('opleidingstraject') for these refugee talents to learn more about the company and gain insights into the working culture in the Netherlands. In addition to this learning path for newcomers, TenneT's leaders and teams have been made aware and enabled to be more inclusive and understand the cultural background of refugee talent.

## Risk Management and Internal Control

Professional risk management with integrated internal control processes are key throughout the organisation that results into effective risk-based decisions.

### Risk management and internal control framework

Risk Management continuously identifies risk, assesses severity of risk, prioritises risk, implements risk responses and maintains a portfolio view. It reports the identified uncertainties, opportunities or control issues proactively on a quarterly basis towards the Executive Board, Supervisory Board and Senior Leaders. The principles of risk management and internal control should be taken into account in all activities performed at and for TenneT.

Risk management facilitates top down and bottom up dialogues, workshops, detailed analyses and general trainings on risk awareness at all levels within TenneT. The resulting outcome provides management insights to take risk-based decisions that support the achievement of objectives set at all organisational levels.

The focus and key objectives of risk management are to:

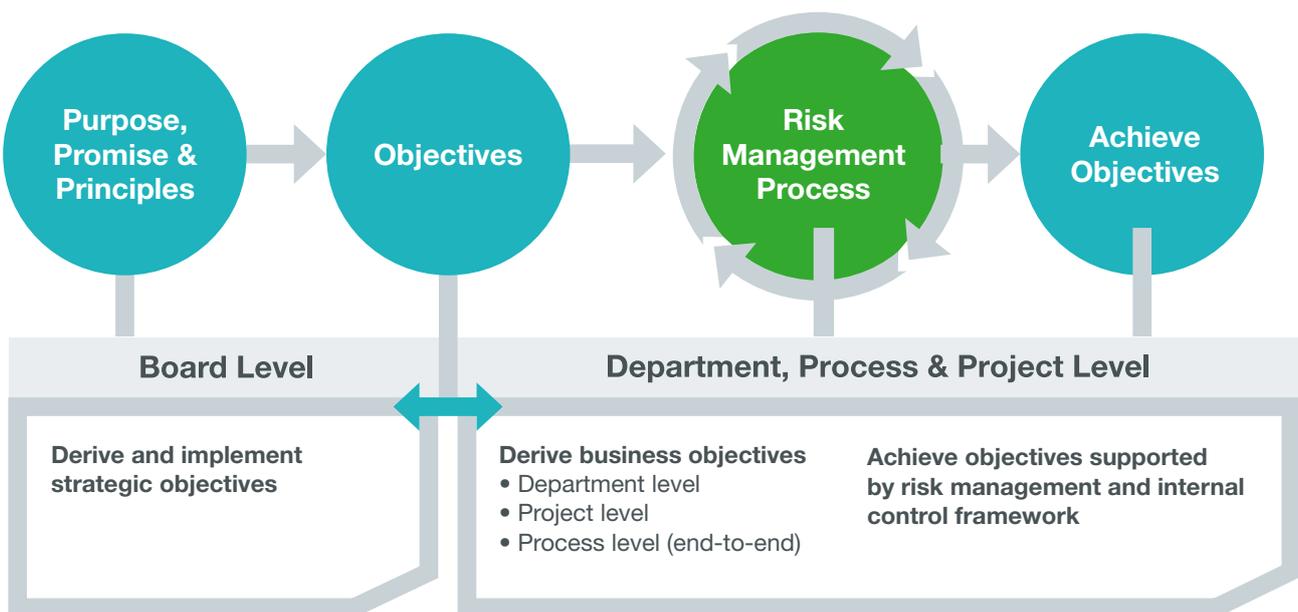
- Identify events, assess the risk, formulate risk responses, inform and communicate, implement control activities and continuous monitoring;
- Establish and maintain a uniform risk management framework;
- Provide the required tools, framework and guidelines for risk based decision making;
- Transparent and uniform reporting based on the ISO and COSO framework.

The risk framework at TenneT is structured into:

- Strategic Risk Management (SRM);
- Operational Risk Management (ORM);
- Project Risk Management (PRM);
- Risk and Portfolio management;
- Internal Control and Process Risk Management.

TenneT’s risk management and internal control frameworks are based on ISO 31000 and COSO standards and are compliant with the requirements of applicable laws and regulations such as the Dutch Corporate Governance Code.

### Risk management and internal control



### Strategic risk management (SRM)

Within the Strategic Risk Management (SRM) domain, all significant risks and opportunities are assessed that could arise and impact the strategic objectives of TenneT now or in the near future. These topics are derived by in-TenneT workshops and aligned across the different units within TenneT using key informative reports published by objective and respected publishers. It is the objective of SRM to assist the Executive Board by reporting key decisional information, deemed necessary to steer or adjust the strategic goals. The findings of SRM are discussed regularly with the Supervisory Board and the Audit, Risk & Compliance Committee.

### Operational risk management (ORM)

TenneT's Operational Risk Management (ORM) supports the management of the units in managing risks and opportunities related to TenneT's objectives. On a bi-annual basis, ORM facilitates risk & opportunity dialogues with the unit leaders and the unit risk champions to discuss risk & opportunity developments. Furthermore ORM continuously assists the risk champions to coordinate risk management activities. While management is the one responsible for daily risk management, it is the task of ORM to streamline the risk process and to ensure the usage of the same methodology, process and understanding across all units. Significant risks or opportunities that could either impact the strategy or have a significant influence on other units are escalated appropriately.

### Project risk management (PRM)

To meet challenges arising from the investment portfolio and related objectives, TenneT implements project risk management to all planned and executed projects. PRM aims to boost the likelihood of realising project goals on time, on budget and with a high level of quality. For all large projects, dedicated project risk managers

systematically review and manage risks together with project leads within the quality and uniformity standards safeguarded by risk management. Project risk management works closely together with claim management and has reached a high maturity level within TenneT.

### Risk & portfolio management

To strengthen security of supply, TenneT's asset management uses condition monitoring and risk based assessments to plan maintenance and investments. Grid constraints are identified by analysing grid components and failures and by monitoring the necessary transport capacity. These constraints are assessed according to the risk they pose to TenneT's objectives. Should the risk exceed a predefined level, responses are proposed and included.

### Internal control (IC)

The internal control framework is designed to support and safeguard the realisation of our process objectives, the compliance with laws, regulations, internal policies and procedures and the reliability of the internal and external reporting. To assess the effectiveness of this framework and identify opportunities for improvement, a control self-assessment is performed twice a year by control owners and validated by management. The risk management & internal control team performs quality reviews on the assessments and reports, monitors and follows-up on the identified issues, for mitigation and remediation with the relevant business owners.

The outcome of the control self-assessments provide direct input for the Letter of Representation process and substantiates the in-control statement of the Executive Board. Overall control effectiveness and the scope of TenneT's internal control framework are part of the bi-annual report to the Executive and Supervisory Board.

## Compliance and integrity

A culture of compliance and integrity, or simply said “responsible behaviour”, is essential to be trustworthy and successful in a sustainable manner. We therefore aim to predict, prevent, detect and respond to compliance & integrity risks that threaten the realisation of TenneT’s strategy and objectives, and may lead to economic or reputational harm. The applicable laws and regulations as well as internal policies and procedures determine the boundaries within which we operate, but more importantly it is our mindset and the way we behave and act that demonstrate our commitment to a compliant and integer culture. To achieve this, we need leadership, the right tone from the top and to act consistently with our principles Ownership, Courage and Connection.

For the implementation of our compliance management system, ISO 19600 (succeeded in 2021 by ISO 37301) served as reference model. An internal charter and framework provide guidance to TenneT and describe the compliance organisation, roles and responsibilities, and the systems, processes and tools used. Our guiding principles Ownership, Connection and Courage, our Code of Conduct; “The way we act” and Supplier Code of Conduct, and a set of other compliance policies and directives support our employees in doing the right things.

The compliance & integrity officers and data protection officers (DPO’s) are positioned independent from the business. The Head of Compliance & Integrity has a direct reporting line to the CEO and the Audit Risk & Compliance Committee (ARCC) and the local compliance officers and DPO’s have direct access to local management. Also in 2021, the compliance officers and DPO’s have been able to act independently, whilst maintaining a good connection to the business. They are frequently requested for advice, and reporting channels where compliance or privacy incidents or concerns can be reported (like the Speak Up Portal or special mailboxes) are familiar to the organisation.

Regular and ad hoc reporting to, alignment and dialogues with the CEO, Executive Board, the Audit Risk & Compliance Committee and local management about the state of compliance & integrity and privacy take place and are considered effective. Furthermore, a GRC platform with respective representatives from other second and third line functions has been formed and quarterly meetings of the Compliance & Integrity Committee take place.

Besides the regular duties of the compliance & integrity organisation, in 2021, special attention has been given to amongst others the following topics:

- The privacy organisation has been further professionalised with the appointment of Privacy Champions in each unit of TenneT, who function as a liaison or single point of contact between the privacy officers and the business units. This will better accommodate for ensuring compliance of our data privacy processes with laws and regulations.
- TenneT has followed up on the agreed commitment to the Dutch energy regulator ACM to improve the prevention of incidents in the high voltage network. As part of that, TenneT has provided all requested information regarding the compliance management system and compliance organisation and culture for assessment by a third party, the UMS Group, and received positive feedback from UMS Group.
- TenneT has ensured its compliance with the new EU Directive 2019/1937 on the protection of whistleblowers. The Speak Up Portal, which was already implemented in 2018 complies with all requirements. Speaking up is actively promoted and communicated by TenneT.
- E-learnings are rolled-out to all employees, on a quarterly basis, about topics like compliance, data privacy, information protection, health and safe workplace and fraud, bribery and corruption. All new employees receive these trainings as part of their onboarding program.

TenneT did not identify any fraud, bribery or corruption breaches which had a material impact in 2021. Material impact is defined in our risk matrix as a breach that has a significant adverse effect on TenneT’s reputation and/or financial position.

## Risk appetite

TenneT’s risk appetite was set by the Executive Board for each of our strategic pillars. Executive Board and Management show commitment to those levels in daily practice. In terms of the amount of risk that we are willing to accept in relation to our strategic goals, we differentiate between the following categories:

- Risk averse (low risk appetite),
- Risk neutral (medium risk appetite) and
- Risk-taking (high risk appetite).

The following graph summarises risk appetite and trends on risks and opportunities assessed by the Executive Board.

### Risk appetite and trend score

Strategic pillar	Description	Risk Appetite	Risk Trend	Opportunities Trend
 <p><b>Energise our people and organisation</b></p>	with an inclusive and safe environment where people enjoy coming to work.	<p>Low - + High</p> 	<p>Low - + High</p> 	<p>Low - + High</p> 
 <p><b>Secure supply today and tomorrow</b></p>	by maintaining the grid to meet reliability targets and operating it to its maximum capability.			
 <p><b>Drive the energy transition</b></p>	as a green grid operator and a thought leader.			
 <p><b>Safeguard our financial health</b></p>	by implementing a regulatory framework to support our strategy, and delivering a return in line with what our capital providers expect, and raising the necessary external financing.			

## Key risks

This section describes the strategic, regulatory and climate related risks and opportunities.

### Strategic risks

#### Deliver a high security of supply

As our grid becomes more reliant on renewable energy being weather-dependent electricity sources, we face more challenges for how we operate our grid in its current form and also plan for its expansion in the future. In parallel, there is uncertainty about the future strategy on the phase out of conventional energy production and the future expansion of renewables could lead to adaptations and shortages in electricity production and reduced leeway for TSOs. We must ensure our grid is future-proof and remains stable to limit congestion scenarios, cost of redispatch. We have defined and started multiple strategic initiatives to ensure our system is up to the task and back-up in the event of failure are available.

However, our strategic plans are challenged with uncertainty on a national and/or European level concerning ambitious climate targets entailing a surge of renewable expansion, political decision-making and the phase-out of conventional energy sources. In the short-term, these uncertainties can hinder investment decisions in the European grid. Furthermore, the climate targets lead towards an increase of the grid connection requests. Due to this increasing demand, for some areas in the Netherlands connecting customers is limited or potentially not meeting it on time. To mitigate this situation TenneT works intensively with all relevant stakeholders, such as but not limited to the Dutch State, customers and constructors, to plan appropriately, to inform what is achievable including our ability to grow and to set the right priorities to all stakeholders as well as to assess the investment plans for the coming years.

New technologies help us mitigate risks related to security of supply, particularly digitalisation has a potential to make optimal use of our grid. For example, data analytics can help us gain insights on how we can use weather predications, assess real-time electricity demand, survey our assets and also help us to keep the grid in balance by connecting to an increasing number of producers and consumers. However, although technology will play a crucial role in realising the energy transition, there are currently no decisive breakthroughs that will simultaneously guarantee security of supply, affordability for society and competitiveness of industry prices.

We foresee that the technological answers will be a mix of technologies, use of digital solutions and data, market design and price models, sector coupling, standardisation, new types or functionality of cables and lines, transformers as well as other assets to transmit energy. However, as innovations are used in the market, the risks connected to the use of innovations relate to an increased risk of outages due to new and unforeseen technical failures that hasn't been observed before with older but familiar technology. Some of our older assets require more maintenance work and downtime and presents a growing logistical challenge and cost. As such, TenneT is actively involved in defining high quality standards from suppliers and service providers and builds rigorous test procedures into its project planning and guarantee periods into its supplier contracts.

These uncertainties do not only concern the application of new technologies, but also the social environment, the level of European collaboration to foster cross-border solutions, the progress with sector coupling, the integrated decarbonisation and the ongoing politics of the green industry. This is relatively new territory for players in the European energy system, it carries great opportunities, but also risks that need to be appropriately managed.

As mentioned, extreme weather, vandalism, theft and cyber security incidents present ongoing threats on our system resilience across our sector. To ensure we are prepared for these risks and any repercussions, we continuously work on understanding them and how best to handle them internally and in partnership with other parties.

To strengthen our cyber-security resilience, TenneT is preparing itself for the upcoming EU legislation, Network Code for Cyber Security. which will bring new requirements.

#### Ensure critical infrastructure for society

However, there are obstacles that threaten our progress. Extreme weather events are an increasingly damaging factor, especially visible during 2021 with severe flooding and storms. Heavy winds caused damage to our infrastructure with 4 pylons collapsed in the province of Gelderland. Although we managed to avert a serious outage, the event forcefully illustrated the potential impact of extreme weather on our assets. It illustrates the need for an increased focus on system resilience, which we are pursuing.

Acute weather conditions are mitigated during the design, construction and maintenance of our assets, e.g. in the choice of location and the choice of materials we use. We therefore monitor developments in weather patterns to gain more experience and insights related to the scenarios and effects of extreme events. Examples of mitigation work include our Krimpen aan de IJssel substation and one of our pylons in a flood area. Both have been elevated to reduce risk. Furthermore, TenneT insures all substations and buildings during construction and operation against risks from natural catastrophes.

Another factor that continues to delay our progress is licensing and permitting. Limited space is available to build and expand our grid in the natural landscape. In the current political and regulatory climate, the majority of the duration of a critical infrastructure project can be spent on planning and licensing, which reduces time left for the actual construction. It often takes eight years to achieve the necessary permitting for a project that takes two years to construct. If we can only move at this speed, the projects needed to achieve the targets of 2030, even 2040, are already running against a tight deadline.

We need to move to a reduction of the permitting time with the political support and consensus that this requires. Therefore, we invite our stakeholders to participate and consider their viewpoints involved. Whereas, economic developments could influence the acceptance of costs associated with the energy transition. In turn, together with policy making authorities we need to build public acceptance for our critical infrastructure work by leading the debate on the energy transition and the steps needed to achieve it.

The increased competition for talent and our ongoing need to hire more people every year, continues to be a key challenge. Our headcount grew over the past year, and with a need to continue recruiting, we are reaching the limit of the number of new people we can integrate into the company each year. Also, when we hire people to work on our growing portfolio of critical infrastructure, it can take two to three years to train them for the needed specialist skills and to deploy the full impact of their work. Rather than simply getting larger with linear growth, we need to get smarter, finding new ways of working, new partnerships with our suppliers and tools, that help us deal with the challenges in front of us.

As with the scarcity of talent, we also face more competition sourcing the essential products, materials and suppliers from outside TenneT we need to perform our work. Precise management and demand planning across our supply chain, as well as close relationships with key suppliers, will be increasingly critical to delivering our projects on time.

In order to achieve our goals and realise the energy transition, we need governments to help us. We require decisive green industry policy and a European collaboration and system integration.

In addition, our progress depends on closer cooperation between governments, other TSOs, DSOs, large customers, and key suppliers. Only jointly we can develop innovative ways to provide reliable, clean, and affordable electricity for a sustainable future. It also requires appropriate European and national legislation and regulations and an investment framework that enables us to meet the needs and objectives of society, economy and politics.

Stakeholder's acceptance for our infrastructure work is another challenge we face, especially in the communities where our work is taking place. The expansion of our high-voltage electricity grid and investments in sustainable energy solutions may significantly alter landscapes and affect a large number of people and interests. The debate on potential health risks related to our overhead transmission lines and electro-magnetic fields is still ongoing. TenneT aims to comply with rules and regulations and take sufficient caution in the construction and operation of our assets. We are also currently working together with the respective authorities and other involved stakeholders in the process of updating our policy with respect to electro-magnetic fields.

### **Create a sustainable workplace**

The need for projects to build, maintain and replace the grid is expected to intensify. A conflicting situation could arise where (sub) contractors intendedly or unintendedly have to balance safety requirements versus on-time project delivery. Not inhering to TenneT's safety protocols could increase the risk of unfortunate injuries or preventable fatalities. TenneT has zero tolerance for harm to people from exposure to health and safety threats. Hence education is intensified to educate all stakeholders, making no difference between internal and contractors, about the importance and adherence to all safety regulations whether working at a construction site or at the office. At construction sites the safety regulation of TenneT supersedes the one of the (sub) contractor and if an unsafe situation is about to happen, we speak up and stop.

The COVID-19 pandemic is unfortunately a risk factor still to consider. While TenneT has been successful in providing a safe work environment, mental health related problems, such as a burnout, are emerging as a potential risk. Working from home for almost the last two years significantly reduced social interactions or potentially introduced a more complicated work/life balance. TenneT continues to provide numerous social engagements online, education and offers specialised help for employees experiencing problems. When national regulations allow for it, in conjunction with TenneT's own policy, more physical options will be available for social interactions while still maintaining the safety for all employees.

To realise our projects, a further growth of the organisation is required by hiring and retaining new talent. This could lead towards two potential limiting factors. Firstly, general scarcity in the market and limited availability of specialised skills could lead to a highly competitive market. A significant shift is noticeable in which traditional energy related competences are replaced by new competences that most organisations, unrelated to energy, also require because of instance the increasing digitalisation. Considering the competitive market, applicants do not only consider the primary benefits, but give more weight to internal succession and ambition chances, company image and the implementation of the new way of working (e.g. partially working from home). Secondly, it is a delicate balance of growing responsibly. Growing too fast could result into operational inefficiencies, overcapacity of the onboarding process or potential loss of the TenneT culture. TenneT continuously improves its image as attractive employer, now and in the future, by listening to applicant feedback and to act on changing market conditions. Furthermore, active participation in career events and reaching out to students at universities creates awareness, stronger commitment and helps to attract new competences other organisations are in competition with. Lastly, the 'International Trainee Programme' and the 'High Voltage Trainee Programme' are successfully continued.

### **Create value to transition to a low carbon economy**

TenneT delicately balances projects resulting into achievements of the energy transition while still being able to fulfil the core tasks of maintaining the grid. This balance becomes even more complex if one considers important influences like protecting the natural environment or reducing the carbon footprint. European and national ambition is intensifying not only in the number of projects required but likely in the time to deliver as well. This infers that due to the increasing number of projects, combined with our core task of maintaining the grid, project delay could become a possibility.

To actively participate as TenneT in the energy transition, investing in upcoming technological developments and innovations is an important prerequisite to be able to deliver on the energy transition targets. These investments could vary from physical changes, for instance applying a substitute for the SF<sub>6</sub> gas, to process and data driven applications like artificial intelligence to improve grid inefficiencies. These technologies, physical or non-physical, are costly and complex to develop, significant amount of time is required to test safety and reliability requirements and scarcity of the competences and equipment limits the development. In this context, it is important to be aware that suppliers are scarce and in high demand, presenting an additional challenge. As a TSO it is not possible to develop all new technology required in-house and therefore a relationship with innovation partners is crucial. TenneT is actively participating and working together with stable partners on new innovations benefitting the grid as well as the energy transition. Since the image as leading TSO with the green ambition and financial stability, the risk of a fierce competition with competitors concerning partner resources is not considered likely to happen.

When considering risks to the ambition as a green and responsible grid operator, one should consider the global economic and political context. These include a potential economic slowdown, regulatory changes, geopolitical conflicts, financial market turmoil and rapid advances in technology. While these would affect the costs on macro-economic level, on micro-economic level it is as important to consider to what extent society is willing to pay the cost of the energy transition. Ultimately, this could impact the regulatory framework, financing options and the availability and prices of products and services for both the consumers as organisations.

### **Have a solid financial performance and reputation**

TenneT's revenues depend mainly on the regulatory frameworks. Adverse changes in any of the regulatory systems might impact the financial performance. The regulatory reimbursement schedules (revenue cap) aim to allow TenneT to recover the efficiently incurred costs including a market-based return. The regulatory methods underlying the revenue cap are typically established for a period of three to five years. The main risks for TenneT are that market returns continuously decrease because of the low interest environment on the capital markets. Furthermore, it is increasingly difficult to accurately forecast efficiently incurred expenses for future periods as past expense patterns no longer reflect the future, especially with TenneT's significant growth.

These developments could lead to substantial deviations between the allowed revenue in a given year of the regulatory period and the actual costs needed to run the business. Although this risk is partially mitigated by the fact that TenneT receives additional income on top of the revenue cap for specific investments it remains an area of debate between TenneT, regulators and market parties.

### **Solve societal challenges with stakeholders and reputation**

To be able to drive the energy transition and lead as a green grid operator, it is important to consider societal acceptance of the energy transition. Extending the grid and deliver on the green ambition could directly affect the impact on nature, available ground and expansion space for the physical assets or the debate about overhanging transmission lines and the effect on health and safety. Improper alignment could result into the inability to fulfil our ambition, potential delay of the energy transition or less than promised carbon footprint reduction. While TenneT is fully complying to all rules and regulations and while sufficient precautions are taken at planning and constructing the grid, societal acceptance remains for TenneT an important and influential stakeholder.

The government has indicated an increase in ambition with regard to the energy transition. It is expected that the number of projects could grow and therefore could impact the project delivery times. This infers that TenneT must be even more agile than before. It is important that alignment takes place between the political aspiration and the TenneT ambition to result feasible project delivery without contradicting promises. The political landscape TenneT operates in, could sometimes be considered complex. Either by different coalition agreements, a difference in local governance structure or due to national and European interests. Without proper alignment it could impact cross-border innovation.

Ultimately, TenneT relies on strong partnerships with a wide range of stakeholders to achieve the work that will enable a carbon-neutral Europe. Getting there will involve collaboration, negotiation and the balancing of common and individual goals, but the destination of a clean energy future is shared by all.

	Regulatory risk	Risk-mitigating actions
<b>General</b> 	<ul style="list-style-type: none"> <li>Inability to meet increasing efficiency targets imposed by incentive regulation, especially taking into account a strongly growing company and the need of investments in grid expansion and innovation.</li> </ul>	<ul style="list-style-type: none"> <li>TenneT performs regular reviews of its processes and organisational structure and introduced lean management. TenneT also initiated strategic dialogues with ACM and industry partners/suppliers.</li> </ul>
	<ul style="list-style-type: none"> <li>TenneT is unable to achieve a reasonable return on its invested capital as well as the full remuneration of operational costs as the regulated return continues to decline due to the low interest environment and stricter regulatory incentives.</li> </ul>	<ul style="list-style-type: none"> <li>TenneT's strategy is to seek mutually acceptable results, however if needed legal action may be taken.</li> </ul>
<b>Europe</b> 	<ul style="list-style-type: none"> <li>The 'Clean Energy Package' (CEP) entered into force. It requires amongst others that TSOs provide to the market 70% of the total cross-border transmission capacity, an amount difficult to achieve without extensive and costly redispatch activities. The ACM approved a derogation of TenneT from the CEP and approved an action plan which gradually aims to fulfil the targets in the Netherlands by 2026.</li> </ul>	<ul style="list-style-type: none"> <li>TenneT monitors compliance against the conditions of the derogation.</li> </ul>
<b>The Netherlands</b> 	<ul style="list-style-type: none"> <li>Regulatory returns in the Netherlands are under pressure due to low interest rate environment. This implies a weakening of operational cash flows in times when TenneT is investing heavily. This impact is aggravated in the Netherlands as a real WACC system is applied which effectively pushes profitability into the future, while being Net Present Value (NPV) neutral. Furthermore, the ACM plans to replace the estimated risk-free rate for the actual risk-free rate, which exposes TenneT to more variability in cash flows and in the short term is likely to have a further negative impact on returns due to the policy of quantitative easing of the European Central Bank.</li> <li>The ACM has shared the <a href="#">preliminary decision</a> on the application of the benchmark during a stakeholder group meeting in February 2021. ACM intends to gradually reduce TenneT's efficient cost level to 77.5% in 2025 and 2026, therewith respecting the grace period until 2025 which was granted in earlier method decisions.</li> </ul>	<ul style="list-style-type: none"> <li>TenneT demonstrates that actual returns have not fallen as much as is expected in the methodology of ACM, therewith supporting its claim that the current method results in an understatement of the Return on Equity. Furthermore TenneT argues that ACM should also address the financeability of a TSO in its decision making, consequently TenneT argues in favour of a nominal WACC system, which is Net Present Value neutral for consumers.</li> <li>TenneT has prepared reports (shadow benchmark - based on the very same sample as ACM) to show that the 'low' efficiency score result from omissions in the model. Whilst ACM for now does not accept TenneT's argumentation, TenneT assesses, that it has a very strong legal position with evidence clearly showing that this score is understated.</li> </ul>

## Climate related risks and opportunities

The Taskforce for Climate related Financial Disclosures provide recommendations for companies to improve and increase the reporting of climate related financial information. We have followed up on their recommendations, also in our risk assessment process and have

identified the following climate related risks and opportunities for TenneT, which we clustered below.

Please note that there might be some overlap with risks also being mentioned earlier in the report, but this is to provide one structured overview in this section.

### Climate related risks

Risks	How might this affect TenneT?	Risk mitigating actions
<ul style="list-style-type: none"> <li>• <b>Transition risks</b></li> </ul> 	<ul style="list-style-type: none"> <li>• <b>Policy and legal risks</b></li> </ul> <p>Policy and legal risks are related to our regulatory framework. Choices we make that can help society and us as a company to transition to a low carbon economy are subject to discussion with our regulator. Our regulatory framework is updated once every 5 years and this might pose a risk that if ambitions from governments in the areas we serve move faster than the spirit of the regulatory framework, this might be a constraining factor to drive the energy transition.</p>	<ul style="list-style-type: none"> <li>• We mitigate this by lobbying on national and European level, run pilot projects and present business cases and focussing on those topics, which promise the highest benefit for the society, which are integration of power and hydrogen as well as flexibility and grid utilisation together with partners.</li> </ul>
	<ul style="list-style-type: none"> <li>• <b>Technology risk</b></li> </ul> <p>A risk of stranded assets might occur in case a new technology is developed which makes them obsolete.</p>	<ul style="list-style-type: none"> <li>• Mitigating actions include challenging the necessity of each investment and embrace other solutions, if those promise more societal value and actively work and invest in new technology as part of our strategy.</li> </ul>
	<ul style="list-style-type: none"> <li>• <b>Market risk</b></li> </ul> <p>Our market risks relate to dealing with the higher infeed of renewable energy sources and impacting the way we balance our grid and market prices. Renewable energy sources are less predictable and cannot easily be increased in case of a higher demand. Differences in market prices can lead to too high requests for energy at one location, where not all energy can be transmitted to the users. In such situations additional measures are required to balance the grid, e.g. re-dispatch.</p>	<ul style="list-style-type: none"> <li>• TenneT plans and builds interconnectors within Europe and we investigate the grid integration of green hydrogen and power grids as well as improving the quality of data to predict power production and consumption.</li> </ul>
	<ul style="list-style-type: none"> <li>• <b>Reputation risk</b></li> </ul> <p>A reputation risk could occur when we are unable to deliver on our strategic goal to drive the energy transition. Also, when realising our assets, we also have a reputational risk if there is a growing resistance from local communities and governments, if we do not engage with our stakeholders properly ("not in my backyard"). Furthermore the overall cost of the energy transition is also a risk from a reputational perspective (affordability).</p>	<ul style="list-style-type: none"> <li>• To mitigate this risk we aim to communicate in an open and transparent fashion. Next to this, we invite stakeholders in the planning and approval process of projects to voice their opinion which we consider in, for instance, the final route of a certain project. We also aim to balance affordability, sustainability and security of supply in all our investment decisions. Further mitigation takes place through the usage of professional planning, project management and costs forecasting.</li> </ul>
<ul style="list-style-type: none"> <li>• <b>Physical risks</b></li> </ul> 	<ul style="list-style-type: none"> <li>• <b>Acute</b></li> </ul> <p>Acute risks are related to for instance (extreme) weather conditions that impact our assets.</p>	<ul style="list-style-type: none"> <li>• Acute weather conditions are mitigated during the design, construction and maintenance of our assets, e.g. choice of location and the choice of materials.</li> </ul>
	<ul style="list-style-type: none"> <li>• <b>Chronic</b></li> </ul> <p>Chronic physical risks can relate to rising sea and ground water levels for instance, where our assets might bear a risk due to this.</p>	<ul style="list-style-type: none"> <li>• We monitor developments to gain more experience and insights related to the scenarios and effects. Examples include projects related to assets such as our Krimpen aan de IJssel substation and one of our pylons, which we both have elevated.</li> <li>• TenneT insures all substations and buildings during construction and operation against risks from natural catastrophes. Pylons and overhead-lines are not insured.</li> </ul>

## Climate related opportunities

Opportunities	How might this affect TenneT?
<ul style="list-style-type: none"> <li>• <b>Resource efficiency</b></li> </ul> 	<ul style="list-style-type: none"> <li>• Innovation and further developments in renewable energy production facilities result in decreasing production costs and decreasing of levies. Additionally, stronger decentralized power production and storage including self-balancing micro grids can relieve high-voltage grids. Furthermore, DC-interconnectors enhance the transmission of power of very long distances and connect renewable power production and demands in different countries.</li> <li>• Solutions related to flexibility help us to make smarter use of our grid. This might have a positive effect on reducing our grid investments and expansion of our grid and with that, reducing the amounts of resources required for us to secure supply today and tomorrow.</li> </ul>
<ul style="list-style-type: none"> <li>• <b>Energy source</b></li> </ul> 	<ul style="list-style-type: none"> <li>• TenneT is a leading investor in the energy transition and so we have been able to gain a vast amount of experience connecting renewable energy sources, such as offshore wind, to our grid. This experience helps us to further drive the energy transition together with partners and fulfil the future investment portfolio.</li> </ul>
<ul style="list-style-type: none"> <li>• <b>Products and Services</b></li> </ul> 	<ul style="list-style-type: none"> <li>• Our project portfolio has significantly changed in order to meet national and European climate goals. Key projects are connecting offshore wind energy to our grid or to ensure that our onshore grid is prepared for a new energy future. The gathering and analysis of energy data may lead to new products and services provided by TSOs, such as TenneT.</li> </ul>
<ul style="list-style-type: none"> <li>• <b>Markets</b></li> </ul> 	<ul style="list-style-type: none"> <li>• Strategies and objectives of financial institutes, banks and especially the European central bank provide opportunities for TenneT to attract sustainable financing at favourable terms and conditions by issuing green finance products to fund and refund our investments in green infrastructure projects.</li> </ul>
<ul style="list-style-type: none"> <li>• <b>Resilience</b></li> </ul> 	<ul style="list-style-type: none"> <li>• Trends in the society, like the electrification of mobility result in higher demand on a stable grid and power supply. To ensure resilience integration of power and gas grids is a vital alternative. Digitalisation using technologies like automatization, robotics and block-chain will help to optimize grid utilisation while safeguarding a reliable supply of electricity.</li> </ul>

# Consolidated financial statements

## Financial statements

### Consolidated statement of financial position

For the year ended 31 December (EUR million)

Assets	Notes	2021	2020
<b>Non-current assets</b>			
Tangible fixed assets	8	7,984	6,733
Right-of-use assets	9	118	116
Intangible assets	10	172	144
Investments in joint ventures and associates	12	2	2
Deferred tax assets	7	120	-
Other financial assets	13	55	59
<b>Total non-current assets</b>		<b>8,451</b>	<b>7,054</b>
<b>Current assets</b>			
Inventories	14	4	3
Account- and other receivables	15	368	263
Cash and cash equivalents	16	281	85
<b>Total current assets</b>		<b>653</b>	<b>351</b>
<b>Total assets</b>		<b>9,104</b>	<b>7,405</b>

## Consolidated statement of financial position

For the year ended 31 December (EUR million)

Equity and liabilities	Notes	2021	2020
<b>Total equity</b>	17	<b>3,092</b>	<b>3,428</b>
<b>Non-current liabilities</b>			
Borrowings	18	4,356	2,700
Contract liabilities	19	374	323
Deferred tax liability	7	-	23
Provisions	20	326	176
Lease liabilities	9	106	104
<b>Total non-current liabilities</b>		<b>5,162</b>	<b>3,326</b>
<b>Current liabilities</b>			
Borrowings	18	-	-
Provisions	20	27	28
Other financial liabilities	22	281	85
Lease liabilities	9	14	13
Account- and other payables	21	528	525
<b>Total current liabilities</b>		<b>850</b>	<b>651</b>
<b>Total equity and liabilities</b>		<b>9,104</b>	<b>7,405</b>

## Consolidated statement of changes in equity

For the year ended 31 December (EUR million)

	Notes	Paid-up and called-up capital	Share premium reserve	Retained earnings	Unappropriated result	Total equity
		17	17	17	17	
<b>At 1 January 2020</b>		<b>100</b>	<b>1,790</b>	<b>1,442</b>	<b>-39</b>	<b>3,293</b>
Total comprehensive income		-	-	-	135	135
Appropriation remaining prior year result		-	-	-39	39	-
<b>At 31 December 2020</b>		<b>100</b>	<b>1,790</b>	<b>1,403</b>	<b>135</b>	<b>3,428</b>
Total comprehensive income		-	-	-	-233	-233
Total Dividend paid to shareholder				-103		-103
Appropriation remaining prior year result		-	-	135	-135	-
<b>At 31 December 2021</b>		<b>100</b>	<b>1,790</b>	<b>1,435</b>	<b>-233</b>	<b>3,092</b>

## Consolidated statement of income and comprehensive income

For the year ended 31 December (EUR million)

	Notes	2021	2020
<b>Revenue</b>	3	<b>1,342</b>	<b>1,124</b>
Grid expenses	4	-1,075	-447
Personnel expenses	4	-127	-105
Depreciation and amortisation of assets	8,9,10	-282	-272
Other operating expenses	4	-133	-101
Other (gains)/losses		5	2
<b>Total operating expenses</b>		<b>-1,612</b>	<b>-923</b>
Share in profit of joint ventures and associates	12	1	1
<b>Operating profit/(loss)</b>		<b>-269</b>	<b>202</b>
Finance income	5	1	9
Finance expenses	6	-47	-31
<b>Finance result</b>		<b>-46</b>	<b>-22</b>
<b>Profit/(loss) before income tax</b>		<b>-315</b>	<b>180</b>
Income tax expense	7	82	-45
<b>Profit/(loss) for the year</b>		<b>-233</b>	<b>135</b>
<b>Other comprehensive income (net of tax)</b>		<b>-</b>	<b>-</b>
<b>Total comprehensive income</b>		<b>-233</b>	<b>135</b>

## Consolidated statement of cash flows

For the year ended 31 December (EUR million)

	Notes	2021		2020	
<i>Operational activities</i>					
<b>Operating profit/(loss)</b>			<b>-269</b>		<b>202</b>
<b>Non-cash adjustments to reconcile operating profit to net cash flows:</b>					
Depreciation, amortisation and impairment of assets	8, 9, 10	282		272	
Result on disposal of assets	8	-		-	
Share in profit of joint ventures and associates	12	1		-1	
Increase/(decrease) in deferred income	19	51		37	
Movements in provisions and other (financial) liabilities and assets		-4		12	
			<b>330</b>		<b>320</b>
<b>Working capital adjustments:</b>					
(Increase)/decrease in account- and other receivables	15	-105		-112	
(Increase)/decrease in inventories	14	-1		1	
Increase/(decrease) in account- and other payables	21	-116		-65	
Increase/(decrease) in current financial liabilities	22	197		6	
			<b>-25</b>		<b>-170</b>
<b>Net cash flows from operating activities</b>			<b>36</b>		<b>352</b>
<i>Investing activities</i>					
Purchase of tangible and intangible fixed assets	8, 10	-1,384		-1,179	
Dividends received from joint ventures and associates	12	-		-	
Interest received	5	1		9	
Proceeds from repayment of financial assets	13	4		324	
<b>Net cash flows used in investing activities</b>			<b>-1,379</b>		<b>-846</b>
<i>Financing activities</i>					
Dividends paid to shareholder	17	-103		-	
Proceeds from borrowings	18	1,656		586	
Redemption of loans	18	-		-75	
Payment of lease liabilities	9	-14		-13	
<b>Net cash flows from financing activities</b>			<b>1,539</b>		<b>498</b>
<b>Net change in cash and cash equivalents</b>			<b>196</b>		<b>4</b>
Cash and cash equivalents at 31 December	16	281		85	
Cash and cash equivalents at 1 January	16	85		81	
			<b>196</b>		<b>4</b>

## 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 2021. Like last year, the notes to the consolidated financial statements are disclosed following more or less the sequence of the balance sheet and profit & loss. Accounting policies are indicated with ⓘ, while key assumptions and estimates are identified by using 🌿 in front of the header.

## 1 Basis for reporting

The accounting policies describe our approach to recognise and measure transactions and balance sheet items in our financial statements. Accounting policies, including new European Union (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 judgements used in the preparation of the financial statements. A more detailed description of accounting policies and significant estimates related to specific reported amounts is presented in the respective notes. Only accounting policies which are deemed material are 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 primary users of these financial statements.

### General

TenneT TSO B.V. ("The company" or "TenneT TSO") and its subsidiaries as an electricity transmission system operator (TSO) have the principal tasks to provide (1) power transmission services, by constructing and maintaining a robust high-voltage grid and (2) system services, by maintaining the balance between supply and demand of electricity 24 hours 7 days a week and (3) facilitating the market in order to have a liquid, stable electricity market with prices in line with the surrounding countries. These activities are governed by the provisions of relevant legislation in the Netherlands. Regulatory authorities oversee TenneT's compliance with these provisions. TenneT Holding B.V. holds the entire issued share capital of TenneT TSO B.V.. The registered office of TenneT TSO B.V. is located at Utrechtseweg 310, Arnhem, the Netherlands, with its statutory seat in Arnhem and a registration with the Dutch Commercial Register under number 09155985.

These consolidated financial statements for the year ended 31 December 2021 were prepared and authorised by our Management Board for issue on 7 March 2022. For regulatory, risk management and treasury activities TenneT relies on support from corporate departments of TenneT Holding B.V. These activities are executed under responsibility of the Management Board of TenneT TSO B.V. These consolidated financial statements have been audited by Deloitte Accountants B.V.

### Basis for preparation

These consolidated financial statements are prepared in accordance with IFRS as adopted by the EU and Part 9, Book 2 of the Dutch Civil Code. The company financial statements for TenneT TSO B.V. are prepared in accordance with the provisions of Part 9, Book 2, of the Dutch Civil Code.

These consolidated financial statements are prepared on a going concern basis. The going concern basis presumes that TenneT TSO has adequate resources to remain in operation, and that the Management Board intend it to do so, for at least one year from the date of the end of the reporting period.

These consolidated financial statements are prepared on a historical cost basis, unless described otherwise in the accounting policy of a balance sheet position. They are presented in euros and all values are rounded to the nearest million (EUR 000,000), except when indicated otherwise.

### Restatement of key management remuneration

In accordance with IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors, comparative figures of the key management remuneration have been retrospectively adjusted to include the termination compensation for former Board member Ben Voorhorst (EUR 493k), which has incorrectly been omitted from the 2020 Annual Report. We refer to Note 4 for the updated key management remuneration disclosure schedules.

## Changes in EU-endorsed published IFRS standards and interpretations effective in 2021

### Significant new and amended standards adopted that are effective for the current year

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

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

It is anticipated that any issued changes to IFRS standards that are not yet effective and adopted by TenneT will not have a significant impact. Changes in EU-endorsed published IFRS standards and interpretations effective in 2021.

### Basis for consolidation

The consolidated financial statements incorporate the financial statements of TenneT TSO B.V. and its subsidiaries as at 31 December 2021. A list of the legal entities included in the consolidation is included in note 29. 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 over a subsidiary, we derecognise the subsidiary's assets (including goodwill), liabilities and any non-controlling interest in the former subsidiary at the date control is lost (including the cumulative translation differences). Furthermore, the fair value of the consideration received, the fair value of any investment retained and any surplus or deficit in statement of income 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 is recognised as goodwill.

### 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. 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. Actual results could differ from these estimates. Significant items containing estimates and assumptions are as follows:

Item	Note	Estimate/assumptions
Tangible fixed assets	8	Estimate of remaining useful life Identification of cash-generating units for fixed asset impairment testing
Right-of-use assets and lease liabilities	9	Estimate of discount rate and expected extension or accelerated termination date
impairment review of intangible and tangible fixed assets	10	Estimate of cash flow projections and pre-tax discount rate
Intangible assets	10	Estimate of recoverable amount and remaining useful life
Grid expenses payable	21	Amongst others estimate of electricity usage and energy prices
Tariffs related provision	20	Estimate of electricity usage and number of parties
Provision for environmental management and decommissioning	20	Estimate of removal costs, removal dates, discount rate and price increases in the period leading up to removal

### Functional currency

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

### Covid-19 impact

The COVID-19 pandemic continued during 2021. Measures initiated in 2020 and continued in 2021 allowed us to run operations in the field and in our control room without interruption, despite challenging circumstances. We are proud of the resilience of our employees. During 2021, COVID-19 had, like in 2020, no material impact on the financial figures of TenneT.

## 2 Underlying financial reporting analysis

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

We generate all of our revenue from our regulated operating activities in the Netherlands. Therefore, close collaboration with our regulator, the Autoriteit Consument & Markt (ACM), to obtain regulations and 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.

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, investments and investments return on capital are the key metrics. The definition of EBIT equals operating profit. Performance of non-regulated activities is evaluated based on EBIT and return on capital of these activities.

### Underlying financial information

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 are required to be returned through future tariffs are recorded as an asset or liability, respectively. TenneT's Management Board believes that the presentation of underlying financial information provides additional relevant insight in the actual business, financial performance, and as such economic reality. Furthermore, this reflects the regulatory regime.

#### ① Accounting policies applied for underlying financial information

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



Matching is achieved through recognition of regulatory deferral accounts. The key requirement for such recognition 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 year's 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 electricity transmission capacity on cross-border interconnections.

(EUR million)	2021			2020		
	Investments	Assets	Liabilities	Investments	Assets	Liabilities
TSO Netherlands	1,550	9,651	6,384	1,281	7,790	4,564
<b>Consolidated underlying information</b>	<b>1,550</b>	<b>9,651</b>	<b>6,384</b>	<b>1,281</b>	<b>7,790</b>	<b>4,564</b>

(EUR million)	2021		2020	
	Assets	Liabilities	Assets	Liabilities
TSO Netherlands	9,104	6,012	7,405	3,976
<b>Consolidated IFRS information</b>	<b>9,104</b>	<b>6,012</b>	<b>7,405</b>	<b>3,976</b>

Investment amounts recognised under IFRS are equal underlying investments

For an analysis of underlying results please refer to the 'have sustainable financial performance and investor ratings' section of our Management Board report.

#### Regulatory deferral accounts: reconciliation to IFRS figures

The difference between the underlying financial information - as presented in the underlying financial reporting analysis- and IFRS reported figures is related to the recognition of regulated assets and liabilities, auctions receipts and the measurement of tangible fixed assets. In the IFRS financial statements, revenue from contracts with customers is recognised when control of the goods or services is transferred to the customer at an amount that reflects the consideration to which TenneT TSO expects to be entitled in exchange for those goods or services. In the underlying financial information revenues are recognised according the permissible tariff decision adopted by the regulator. By doing so, volume and post calculation differences are directly matched to the related costs and therefore provide additional relevant insight to management for manage TenneT TSO's business.

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 is reconciled to reported IFRS figures as follows:

	2021	2020
(EUR million)		
Connection and transmission services	1,504	907
Maintenance of the energy balance	91	52
Operation of energy exchanges	5	4
Offshore revenues	187	153
Other	60	51
Inter-segment	29	24
<b>Total underlying revenue</b>	<b>1,876</b>	<b>1,191</b>
Inter-segment adjustments and eliminations	-30	-24
<b>Total underlying revenue from contracts with customers</b>	<b>1,846</b>	<b>1,167</b>
Grid expenses	-1,075	-447
Other operating expenses	-544	-483
Share in profit of joint ventures and associates	1	1
<b>Underlying earnings before income tax</b>	<b>228</b>	<b>238</b>
Revenue adjustment to IFRS	-504	-43
Cost adjustment to IFRS	7	7
<b>Operating profit/(loss)</b>	<b>-269</b>	<b>202</b>
Finance result	-46	-22
<b>Profit/(loss) before income tax</b>	<b>-315</b>	<b>180</b>
Corporate income tax expenses	82	-45
<b>Profit/(loss) for the year</b>	<b>-233</b>	<b>135</b>

(EUR million)	Reconciliation IFRS to underlying figures					
	2021			2020		
	IFRS figures	Underlying items	Underlying figures	IFRS figures	Underlying items	Underlying figures
<b>Revenue</b>	<b>1,342</b>	<b>504</b>	<b>1,846</b>	<b>1,124</b>	<b>43</b>	<b>1,167</b>
Grid expenses	-1,075	-	-1,075	-447	-	-447
Personnel expenses	-127	-	-127	-105	-	-105
Depreciation and amortisation of assets	-282	-7	-289	-272	-7	-279
Other operating expenses	-133	-	-133	-101	-	-101
Other (gains)/losses	3	-	3	2	-	2
<b>Total operating expenses</b>	<b>-1,614</b>	<b>-7</b>	<b>-1,621</b>	<b>-923</b>	<b>-7</b>	<b>-930</b>
Share in profit of joint ventures and associates	1	-	1	1	-	1
<b>Operating profit/(loss)</b>	<b>-271</b>	<b>497</b>	<b>226</b>	<b>202</b>	<b>36</b>	<b>238</b>
Finance income	1	-	1	11	6	17
Finance expenses	-47	9	-38	-33	-10	-43
<b>Finance result</b>	<b>-46</b>	<b>9</b>	<b>-37</b>	<b>-22</b>	<b>-4</b>	<b>-26</b>
<b>Profit/(loss) before income tax</b>	<b>-317</b>	<b>506</b>	<b>189</b>	<b>180</b>	<b>32</b>	<b>212</b>
Corporate income tax expenses	82	-128	-46	-45	-4	-49
<b>Profit/(loss) for the year</b>	<b>-235</b>	<b>378</b>	<b>143</b>	<b>135</b>	<b>28</b>	<b>163</b>
<b>Profit/(loss) attributable to:</b>						
<b>Equity holders of ordinary shares</b>	<b>-235</b>	<b>378</b>	<b>143</b>	<b>135</b>	<b>28</b>	<b>163</b>
<b>Underlying items</b>						
To be settled in tariffs		728			172	
Auction receipts		-159			-94	
Investment contributions		9			10	
Maintenance of the energy balance		-74			-45	
<b>Revenue</b>		<b>504</b>			<b>43</b>	
To be settled in tariffs		-			-	
<b>Grid expenses</b>		<b>-</b>			<b>-</b>	
Personnel expenses		-			-	
Depreciation and amortisation of assets		-7			-7	
Other operating expenses		-			-	
Other (gains)/losses		-			-	
<b>Total operating expenses</b>		<b>-7</b>			<b>-7</b>	
Share in profit of joint ventures and associates		-			-	
<b>Operating profit/(loss)</b>		<b>497</b>			<b>36</b>	

### 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 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'. The expenses related to these items have to be settled in future tariffs in coming years.

The underlying item "to be settled in tariffs" is part to the revenue stream "connection and transmission services" and equals EUR 728 million (2020: EUR 172 million).

### Auction receipts & investment contributions

Auction receipts result from auctioning the available electricity transmission capacity on cross-border interconnections. These receipts are not at TenneT's free disposal. In accordance with Regulation (EU) 2019/943, auction receipts shall be used to fulfill the following priority objectives:

- guaranteeing the actual availability of the allocated capacity including firmness compensation; or
- maintaining or increasing cross-zonal capacities through optimisation of the usage of existing interconnectors by means of coordinated remedial actions, where applicable, or covering costs resulting from network investments that are relevant to reduce interconnector congestion.

When these priority objectives have been adequately fulfilled, auction receipts may be used as income to be taken into account by the regulatory authorities when approving the methodology for calculating network tariffs or fixing network tariffs, or both. In the Netherlands, TenneT agreed with its regulator (Autoriteit Consument en Markt) that investments in interconnectors are no longer financed through the auction receipts as of 2016. The current outstanding balance of auction receipts will be used in accordance with the aforementioned objectives. On 24 November 2021, an additional addendum to the original agreement was signed where ACM decided that no auction receipts will be used to reduce tariffs in 2022. Investments in previous years 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, following the release scheme as described above.

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.

The underlying item auction receipts is part of revenue stream "operations of energy exchanges" for an amount of EUR -159 million (2020: EUR -94 million). The underlying item investment contribution is part of, revenue stream "other" for an amount of EUR 9 million (2020: -/- EUR 10 million).

### Maintenance of the energy balance

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

The underlying item maintenance of the energy balance is part of revenue stream "maintenance of the energy balance" for an amount of EUR -74 million (2020: EUR -45 million).

### Depreciation and amortisation of assets

Differences in depreciation and amortisation of 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.

There is no difference in depreciation method between underlying and IFRS, but the amount of depreciation differs due to an impairment under IFRS of the NorNed cable in 2015 of EUR 232 million which was not recognised under underlying.

### 3 Revenue

(EUR million)	2021	2020
Connection and transmission services	802	737
Offshore revenues	160	149
Maintenance of the energy balance	166	97
Operation of energy exchanges	160	96
Other	23	21
Intercompany revenues	31	24
<b>Total</b>	<b>1,342</b>	<b>1,124</b>

#### Connection and transmission services

Revenue from connection and transmission services is regulated by ACM in the Netherlands. It includes revenue from services provided to DSOs and industrial clients (such as resolution of transmission restrictions, congestion management and reactive power management). Revenue mainly increased due to a higher asset base and higher tariffs.

#### Maintenance of the energy balance

TenneT is 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 50Hz continuously). If this balance is 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 cash in- and outflows associated from maintaining this energy balance (e.g. imbalance settlements) fluctuate considerably and are refunded through regulated tariffs in subsequent years.

#### Operation of energy exchanges

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

#### Offshore revenue

Total offshore revenue increased mainly due to the higher imputed return on equity and increasing offshore asset base.

#### ① Accounting policy

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 services.

Revenues arise 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 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 ACM, a downward 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 under IFRS when a regulator permits increases to be made to future tariffs in respect of under-recovery.

Offshore revenue in The Netherlands is accounted for in accordance with the recognition and measurement principles of IAS 20. These revenues are not recognised until there is reasonable assurance that the Group satisfy the conditions attached to receiving this income.

## 4 Operating expenses

### Grid expenses

(EUR million)	2021	2020
System services	334	110
Connection and transmission services	533	164
Maintenance of the energy balance	90	49
Maintaining and operating transmission grids	122	130
Other	-4	-6
<b>Total</b>	<b>1,075</b>	<b>447</b>

System services increased additionally due to higher costs related to feed-in management, transmission restrictions, grid losses and redispatch costs. The increase is caused both by higher energy prices due to market situation and more transmission restrictions. Increase of cost of maintaining and operating transmissions grids mainly related to higher insurance costs.

### Personnel expenses

(EUR million)	2021	2020
Salaries	150	124
Social security contributions	17	15
Pension charges other plans	31	22
Other personnel expenses	31	27
Capitalised costs for (in)tangible fixed assets	-102	-83
<b>Total</b>	<b>127</b>	<b>105</b>

In 2021, the average workforce amounted to 1,875 FTEs (2020: 1,610 FTE's). Almost all employees work in the Netherlands.

For our personnel we have a multi-employer scheme at ABP Pension Fund (ABP) in the Netherlands. The pension contribution rate for 2021 was 25.9% of the pensionable salary. In 2022 we expect to contribute EUR 33 million to the multi-employer scheme administered. Compared to the total participants in the ABP pension fund, our share in ABP is limited. We are not liable for deficits in the multi-employer plan. ABP has indicated that it is unable to provide the kind of company-specific information required by IFRS for defined-benefit pension schemes. As such, this scheme is treated as if it was a defined contribution scheme. Since the financial situation of the ABP pension plan at 31 December 2015 was inadequate from a regulatory perspective, ABP filed a new 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 at 31 December 2021 is 110.2% (2020: 93.2%, 2019: 95.8%).

### Key management remuneration

Members of the Executive Board of the parent company are regarded as key management. Aggregate remuneration paid to TenneT's Management Board is as follows:

Executive Board (EUR thousand)	Fixed	Pension cost	Termination benefit	Total
<b>2021</b>	<b>522</b>	<b>119</b>	<b>216</b>	<b>857</b>
2020	534	103	493	1,130

The comparative figures of the key management remuneration have been adjusted to include the termination compensation for former Board member Ben Voorhorst (EUR 493 thousand), which has incorrectly been omitted from the 2020 Annual Report. The termination benefit was paid out in 2021.

The aggregate Management Board remuneration comprises remuneration of statutory directors of EUR 857 thousand (2020: EUR 1,130 thousand) and remuneration of non-statutory directors of nil (2020: EUR 12 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. Remuneration paid to members of the Management Board in respect of supervisory directorships in affiliated entities accrues to the company.

### Composition of the Management Board

TenneT TSO's Management Board consists of people with diverse experiences, skills and knowledge. TenneT TSO values this diversity and believes it contributes positively to the way situations are assessed and decisions are made. TenneT TSO is aware that women are currently underrepresented in the Management Board and takes this into account for new appointments by making gender one of the assessment criteria and by a focused search for qualified female candidates. When multiple qualified candidates are available, the candidate that contributes to a more equal division in gender will in principle be preferred. For future appointments, TenneT TSO will continue its current approach and will make serious efforts to comply with the gender equality targets as described in the Dutch law and as set by the European Commission.

### Other operating expenses

(EUR million)	2021	2020
Accommodation and office expenses	38	28
Consultancy expenses	16	12
Hiring of temporary personnel	41	25
Travel and living expenses	4	4
Other expenses	34	32
<b>Total</b>	<b>133</b>	<b>101</b>

The other expenses include mainly net operating costs related to projects, contribution and subscription costs and training expenses.

The fees listed in the table below relate to the services provided to the Company and its consolidated Group entity by Deloitte Accountants B.V., The Netherlands, the external auditor as referred to in section 1(1) of the Dutch Accounting Firm Oversight Act (Dutch acronym: Wta), as well as by other Dutch and non Dutch Deloitte individual partnerships and legal entities, including their tax services and advisory groups.

(EUR thousand)	2021	2020
<b>Audit of the financial statements</b>		
Deloitte Accountants B.V.	409	430
<b>Subtotal</b>	<b>409</b>	<b>430</b>
<b>Other assurance services</b>		
Deloitte Accountants B.V.	108	256
Other Deloitte firms	72	80
<b>Subtotal</b>	<b>180</b>	<b>336</b>
<b>Total assurance services</b>	<b>589</b>	<b>766</b>

The financial audit fees include the aggregate fees in 2021 and 2020 for professional services rendered for the audit of TenneT's Integrated Annual Report and annual statutory financial statements of subsidiaries or services that are normally provided by the auditor in connection with these audits.

The other assurance fees include the aggregate fees invoiced for assurance and services for other audit services, which generally only the company's independent auditor can reasonably provide, such as comfort letters, regulatory statements and audits of grant statements.

### ① Accounting policy

TenneT has energy purchase contracts for the forward purchase of energy or gas that are used to satisfy physical delivery requirements to customers or for the energy that the group uses itself. Substantially all our costs of purchasing electricity for supply to customers are recoverable at an amount equal to cost. The timing of recovery of these costs can vary between financial periods leading to an under- or over-recovery within any particular year that can lead to large fluctuations in the IFRS income statement. We follow approved policies to manage price and supply risks for our commodity activities.

TenneT's energy procurement risk management policy and delegations of authority govern its commodity trading activities for energy transactions. The purpose of this policy is to ensure we transact within pre-defined risk parameters and only in the physical and financial markets where we or our customers have a physical market requirement. In addition, state regulators require TenneT TSO to manage commodity risk and cost volatility prudently through diversified pricing strategies. We are required to file a plan outlining our energy procurement strategy to be approved by regulators. In certain cases, we might receive guidance with regard to specific hedging limits.

Energy purchase contracts for the forward purchase of electricity that are used to satisfy physical delivery requirements to customers, or for energy that TenneT TSO uses itself, meet the expected purchase or usage requirements of IFRS 9. They are, therefore, not recognised in the financial statements until they are realised. In note 27 of the consolidated financial statements commitments under such have been disclosed as "Grid-related commitments".

Operating expenses are expenses incurred during regular day-to-day business, such as system services, connection and transmission services, maintenance of energy balance and costs of maintaining and operating transmission grids. Operating expenses are recorded in the statement of income in the period they are incurred.

## 5 Finance income

### ① Accounting policy

Finance income mainly comprises interest income from participations and from the shareholder. Interest income is recognised using the effective interest rate method.

## 6 Finance expenses

(EUR million)	2021	2020
Interest expenses on borrowings with shareholder (TenneT Holding B.V.)	58	43
Capitalised interest on assets under construction	-13	-11
Interest on lease liability	1	1
Other finance expenses	1	-2
<b>Total</b>	<b>47</b>	<b>31</b>

For the effective rate of interest on assets under construction and interest on long-term loans, reference is made to note 8 respectively 18.

In 2021 the borrowings from the shareholder increased from EUR 2.7 billion to EUR 4.4 billion. But due to a lower average interest rate, interest expenses for borrowings from the shareholder decreased.

### ① Accounting policy

Finance expenses comprise mainly interest expenses, such as interest on borrowings, capitalised interest on assets under construction and interest on lease liabilities. Finance expenses are recorded in the statement of income using the effective interest rate method.

## 7 Corporate income tax

TenneT TSO B.V. forms a fiscal unity with TenneT Holding B.V. regarding income tax. TenneT TSO has recognised corporate income tax as if the company is solely liable for corporate income tax.

The key components of corporate income tax expense are:

Consolidated income statement (EUR million)	2021	2020
Current income tax charge	60	65
Deferred tax	-142	-20
<b>Corporate income tax expense reported in the statement of income</b>	<b>-82</b>	<b>45</b>

The deferred tax related to temporary differences is related to regular depreciation and amortisation.

In the Netherlands, a statutory corporate income tax rate of 25% was applied. Reconciliation between corporate tax expense and the accounting profit multiplied by the statutory corporate income tax rate of 25% is as follows:

(EUR million)	2021	2020
<b>Profit before corporate income tax</b>	<b>-317</b>	<b>180</b>
Statutory corporate income tax rate of 25% (2020: 25%) (the Netherlands)	-78	45
Effect future tax rate change in the Netherlands	-4	-
<b>At the effective corporate income tax rate of 26% (2020: 25%)</b>	<b>-82</b>	<b>45</b>

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

(EUR million)	Statement of financial position		Statement of income	
	2021	2020	2021	2020
Auction receipts	-14	-80	-67	-31
Investment contributions	-66	-66	-	6
Tariffs to be settled	86	23	-62	27
Depreciation for tax purposes	109	95	-14	-20
Provisions	5	5	-	-2
<b>Net deferred tax assets/(liabilities)</b>	<b>120</b>	<b>-23</b>		
<b>Deferred tax expense/(income)</b>			<b>-143</b>	<b>-20</b>

Movement of the deferred tax position is set out below.

(EUR million)	2021	2020
<b>At 1 January</b>	<b>-23</b>	<b>-43</b>
Tax expense during the period recognised in statement of income	143	20
<b>At 31 December</b>	<b>120</b>	<b>-23</b>

The fiscal unity did not have any tax loss carry forwards as of 31 December 2021.

### ① Accounting policy

The tax charge for the period is recognised in the statement of income, the statement of comprehensive income, 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 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 where we 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 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 assessment is performed 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. There are no unrecognised carry forward losses per 31 December 2021 (2020: nil).

Deferred tax assets and liabilities are recognised on a gross basis 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.

## 8 Tangible fixed assets

(EUR million)	High-voltage substations	High-voltage connections	Other assets	Assets under construction	Total
<b>Cost</b>					
<b>At 1 January 2020</b>	<b>2,927</b>	<b>3,425</b>	<b>321</b>	<b>1,384</b>	<b>8,057</b>
Additions	26	104	-	1,075	1,205
Transfers	287	470	16	-773	-
Changes in estimations	-	19	-	-	19
Disposals	-	-	-1	-	-1
<b>At 31 December 2020</b>	<b>3,240</b>	<b>4,018</b>	<b>336</b>	<b>1,686</b>	<b>9,280</b>
Additions	-	152	-	1,351	1,503
Transfers	178	136	4	-317	1
Changes in estimations	-	-	-	-	-
Disposals	-	-	-	-4	-4
<b>At 31 December 2021</b>	<b>3,418</b>	<b>4,306</b>	<b>340</b>	<b>2,716</b>	<b>10,780</b>
<b>Depreciation and impairment</b>					
<b>At 1 January 2020</b>	<b>1,032</b>	<b>1,124</b>	<b>155</b>	<b>-</b>	<b>2,311</b>
Depreciation for the year	96	118	22	-	236
<b>At 31 December 2020</b>	<b>1,128</b>	<b>1,242</b>	<b>177</b>	<b>-</b>	<b>2,547</b>
Depreciation for the year	101	127	21	-	249
Disposals	-	-	-	-	-
<b>At 31 December 2021</b>	<b>1,229</b>	<b>1,369</b>	<b>198</b>	<b>-</b>	<b>2,796</b>
<b>Net book value:</b>					
At 1 January 2020	1,895	2,301	166	1,384	5,746
At 31 December 2020	2,112	2,776	159	1,686	6,733
At 31 December 2021	2,189	2,937	142	2,716	7,984

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

In 2021 the discount rate used for the decommissioning provision was between 0.165% and 0.318% (2020: 0.0% and 0.1%) for offshore wind farms (OWF) connections (see note 20). The discount rate has been adjusted in 2021 to reflect current market assessments of the time value of money and the risks specific to the liability. 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 amount.

The amount of borrowing costs capitalised during 2021 is disclosed in note 6. The effective interest rate used to determine the amount of borrowing costs eligible for capitalisation was 2.0% (2020: 2.1%).

### Impairment test for tangible fixed assets

On 20 September 2021, the ACM published a new method decision for the Netherlands, which includes a decrease in the benchmark score from 97.9% in 2021 to 89.1% in 2025 and 2026 (making an average of 92.37% in the regulatory period 2022-2026 due to the grace period). Although TenneT appealed this ACM's efficiency decision in 2021, the adjustment of the benchmark score was identified as a triggering event to perform an impairment test at the level of the CGU regulated assets of TSO Netherlands.

A test for impairment has been conducted as at 31 December 2021. The recoverable amount of the CGU TSO Netherlands is determined based on value-in-use calculations using a discounted cash flow method. The determination of the recoverable amount is primarily based on:

- the provisions in the regulatory framework, as laid down in the 2022-2026 Method Decree (Methode Besluit) and in other applicable regulations and decrees. The WACC reimbursement is expected to converge towards the IFRS-based nominal discount rate in the long run;
- the operational projections and liquidity forecast for four regulatory periods based on approved budgets and committed investment plans. In our model it is assumed that the benchmark score will increase in the next regulatory period to being fully efficient as of the second next regulatory period - also based on the substantial arguments that TenneT brought forward against the current benchmark score;
- IFRS-based nominal pre-tax discount rate (3,75%);
- The continuing value of the grid is derived from the then expected standardised asset value (GAW). The standardised asset value is the value of the investments that a TSO is allowed to charge via the tariffs with a reasonable return.

Based on the information currently available and the above-mentioned test for impairment, management has concluded that as at 31 December 2021 there was no impairment on the CGU TSO Netherlands.

The forecast period assumed is up to 2041, which exceeds the limitation of 5 years for value in use calculations as described in IAS 36. Management considers it appropriate to exceed beyond 5 years since the forecast period should be at the end of a regulatory period and long enough to include the start of operations of the committed investment projects to be able to reflect a steady state situation.

Sensitivity analyses have been performed, including changes in the (i) investment plans, (ii) WACC reimbursement in subsequent regulatory periods and (iii) increases of the benchmark score for future regulatory periods. The sensitivity analyses did not result in a different outcome.

### **① Accounting policy**

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 met. All other repair and maintenance costs are recognised in the statement of income 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 if and to extend such borrowing costs are directly compensated in the year of construction.

## Key estimates and assumptions

To calculate depreciation amounts, the following useful lives of various asset categories were assumed:

Estimated useful lives tangible fixed assets	Years
<b>Substations</b>	
Switches and offshore converter stations	20-35
Offshore platforms	20
Security and control equipment	10
Power transformers	35
Capacitor banks	35
Telecommunications equipment	10
<b>Connections</b>	
Pylons/lines	40
Cables (subsea and underground)	20-40
<b>Other</b>	
Office buildings	40
Office IT equipment	3-5
Process automation facilities	5
Offshore assets	20
Other company assets	5-10
Land (and its preparation for building) is not subject to depreciation	

## 9 Right-of-use assets and lease liabilities

### Right-of-use assets

(EUR million)	Land & buildings	Other right-of-use assets	Total
<b>Cost</b>			
<b>At 1 January 2020</b>	<b>86</b>	<b>43</b>	<b>129</b>
Additions	3	2	5
Depreciation	-7	-4	-11
Other movements	-9	2	-7
<b>At 31 December 2020</b>	<b>73</b>	<b>43</b>	<b>116</b>
Additions	10	4	14
Remeasurement	-	-	-
Depreciation	-8	-4	-12
<b>At 31 December 2021</b>	<b>75</b>	<b>43</b>	<b>118</b>

### Leased Land & Buildings

Land is mainly leased to set up pylons for electricity transmission cables and for constructed substations. These contracts run for a period of 25 - 170 years. Buildings are leased mainly as office space and for storage space. These contracts run for a period of 1 - 15 years.

Lease contracts for buildings are negotiated individually and include a range of different terms and conditions, including extension options.

Lease payments were in substance fixed, only a minority of the lease contracts contain clauses with reference to the CPI index.

### Other lease assets

Telecom lease contracts (including fibreglass cables) run for a period between 6 and 36 years. For qualifying employees TenneT TSO leased cars with a lease term between 2 and 10 years. TenneT TSO does not purchase or guarantee the value of leased cars or telecom assets.

TenneT TSO had several contracts with termination / extension options. In determining the lease term all relevant facts and circumstances that create a significant economic incentive to exercise those options are taken into consideration.

TenneT TSO had no material 'sub lease' contracts in 2021 and 2020 and therefore no material income from subleasing right-of-use assets. TenneT TSO has not entered into any sale and leaseback contracts. No lease contracts with residual value guarantees are entered into. No lease contracts have been concluded that contain restrictions or covenants.

Lease payments are in substance fixed, only some of the lease contracts had pre-determined lease payment changes.

### Short-term leases and low value leases

TenneT TSO leased certain other assets with terms of 1-3 years. TenneT TSO considers these assets to be of low-value or short-term in nature and therefore no right of use assets and lease liabilities were recognised for these leases. The total of short-term lease expenses for more than one month and low value assets lease expenses amounted to EUR 1 million (2020: EUR 1 million).

### Lease liability

(EUR million)	2021			2020		
	Current	Non-current	Total	Current	Non-current	Total
Lease liability Land & buildings	8	67	75	8	65	73
Lease liability other leases	6	39	45	5	39	44
<b>Total</b>	<b>14</b>	<b>106</b>	<b>120</b>	<b>13</b>	<b>104</b>	<b>117</b>

(EUR million)	Lease liability Land & buildings	Lease liability other leases	Total
<b>At 1 January 2020</b>	<b>88</b>	<b>43</b>	<b>131</b>
Addition	3	2	5
Interest	1	1	2
Repayments	-8	-5	-13
Other movement	-11	3	-8
<b>At 31 December 2020</b>	<b>73</b>	<b>44</b>	<b>117</b>
Addition	10	5	15
Interest	1	1	2
Repayments	-9	-5	-14
<b>At 31 December 2021</b>	<b>75</b>	<b>45</b>	<b>120</b>

The total cash outflow (including low value items and short-term leases) in 2021 was EUR 14 million (2020: EUR 13 million). TenneT TSO did not commit to any future cash outflow of lease contracts.

The maturity analysis of lease liabilities is disclosed in note 24. The total amount recognised in the consolidated statement income is as follows:

(EUR million)	2021	2020
Depreciation expense of right-of-use assets	-12	-11
Short-term lease expenses	-	-1
Interest expense on lease liabilities	-2	-2
<b>Total amount recognised in profit and loss</b>	<b>-14</b>	<b>-14</b>

### ① Accounting policy

At inception of a contract, TenneT TSO assesses whether a contract conveys the right to control the use of an identified asset for a period in exchange for consideration, in which case it is classified as a lease.

TenneT TSO recognises a right-of-use asset and a lease liability at the lease commencement date. The asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to restore the underlying asset, less any lease incentives received.

The lease asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term, considered to be indicated by the lease term. The lease asset is periodically adjusted for certain remeasurements of the lease liability and impairment losses (if any).

The lease liability is initially measured at the present value of outstanding lease payments, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, TenneT's incremental borrowing rate. If available, the interest rate implicit in the lease is used for discounting (e.g. car leases). Otherwise the used discount rates are shown below:

	2021	2020
Under 5 year	0.00%	0.00%
5-10 years	0.00%	0.50%
10-15 years	0.27%	1.10%
15-25 years	0.58%	1.60%
Above 25 years	0.95%	2.00%

After initial recognition, the lease liability is measured at the present value of the remaining lease payments using the effective interest method and is remeasured when there is a change in future lease payments arising from a change in an index or rate or if TenneT TSO changes its assessment of whether it will exercise a purchase, extension or termination option. A corresponding adjustment is made to the carrying amount of the right-of-use asset with any excess over the carrying amount of the asset being recognised as profit or loss.

### Short-term leases and leases of low value

TenneT TSO has elected not to recognise right-of-use assets and lease liabilities for short-term leases (leases with a term of 12 months or less) and leases of low-value assets. TenneT TSO recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term or another systematic basis if that basis is more representative of the pattern of the lessee's benefit. Furthermore, we have elected not to recognise the lease of intangible assets.

## 10 Intangible assets

(EUR million)	Goodwill	Software	Customer contracts	Other intangible assets	Intangible assets under construction	Total
<b>Cost</b>						
<b>At 1 January 2020</b>	<b>3</b>	<b>210</b>	<b>64</b>	<b>26</b>	<b>36</b>	<b>339</b>
Additions	-	-	-	-	57	57
Transfers	-	35	-	-	-35	-
<b>At 31 December 2020</b>	<b>3</b>	<b>245</b>	<b>64</b>	<b>26</b>	<b>58</b>	<b>396</b>
Additions	-	-	-	-	49	49
Transfers	-	51	-	-	-51	-
<b>At 31 December 2021</b>	<b>3</b>	<b>296</b>	<b>64</b>	<b>26</b>	<b>56</b>	<b>445</b>
<b>Amortisation and impairment</b>						
<b>At 1 January 2020</b>	<b>-</b>	<b>172</b>	<b>53</b>	<b>5</b>	<b>-</b>	<b>230</b>
Amortisation for the year	-	17	5	-	-	22
<b>At 31 December 2020</b>	<b>-</b>	<b>189</b>	<b>58</b>	<b>5</b>	<b>-</b>	<b>252</b>
Amortisation for the year	-	15	5	1	-	21
<b>At 31 December 2021</b>	<b>-</b>	<b>204</b>	<b>63</b>	<b>6</b>	<b>-</b>	<b>273</b>
<b>Net book value:</b>						
At 1 January 2020	3	38	11	21	36	109
At 31 December 2020	3	56	6	21	58	144
At 31 December 2021	3	92	1	20	56	172

During 2021 EUR 39 million (2020: EUR 12 million) of software was internally developed.

### ① Accounting policy

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

Goodwill is initially measured at cost and represents the excess (i) of the consideration transferred over (ii) TenneT TSO B.V.'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 end of an asset's or CGU's fair value less costs of disposal and its value in use. If 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	3-12
Customer contracts	10-14
Purchased rights to use land	25-45
Other	5-15

Intangible assets, with the exception of goodwill, have a fixed useful life within the ranges outlined above and are amortised over such 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 CGU level.

### Impairment testing of goodwill

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to the CGU (our operating segment) expected to benefit from the synergies of the combination. The CGU 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 our assessment of current market conditions in respect 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 for the CGU to which the individual assets are allocated. The projections take into account 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 CGU's cash flow generating potential.

## 11 Business combinations

### Accounting policy

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of assets and liabilities measured at their acquisition-date fair value (with a limited number of specified exceptions) including the amount of any non-controlling interest in the acquiree. For each business combination, we decide 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 in connection with an acquisition 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 of (i) the asset's carrying value and, (ii) fair value less costs of disposal.

## 12 Investments in joint ventures and associates

### Joint ventures and associates

TenneT has, directly or indirectly, 50% equity stakes in Reddyn B.V., Tenzs B.V. and TeslaN B.V. and a 20% equity stake in Equigy B.V. These investments are classified as joint ventures. In addition TenneT TSO B.V. holds an immaterial investment in Energie Data Services Nederland (EDSN) B.V. For the investment in Equigy B.V. joint control is exercised, despite unequal equity stakes. Therefore this investment is classified as joint venture as of 2021.

In 2021 we received EUR 0 million dividend from our associates and joint ventures (2020: EUR 1 million).

### ① Accounting policy

A joint venture is an arrangement whereby the parties in the arrangement have joint control over the net assets of the joint arrangement. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities of the 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 TenneT TSO's share of net assets of the investment since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The statement of income reflects our share of the results of operations of investments. Any change in other comprehensive income of these investments 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 any investment are eliminated to the extent of the interest in such investment. When an associate or joint venture distributes dividend to us in excess of our carrying amount, a liability is recognised if TenneT TSO:

- a. is obliged to refund the dividend;
- b. has incurred a legal or constructive obligation; or
- c. 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 generates profits, this is only recognised if and to the extent 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.

Upon 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 upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in the statement of income.

## 13 Other financial assets

(EUR million)	2021	2020
Receivables from related parties	47	51
Other prepayments	8	8
<b>Total</b>	<b>55</b>	<b>59</b>

The Foundation for the Management of Allocated Funds from the National High-Voltage Grid (hereafter: 'The Foundation') holds a 10% investment in TenneT GmbH & Co. KG recognised at fair value. In order to protect the allocated funds and to ensure their immediate availability upon request from the Dutch regulator a put- and a call option have been emitted. The call option with an exercise price of EUR 47 million entitles TenneT Holding B.V. to acquire the investment from 'The Foundation'. The put option has an exercise price of EUR 47 million and requires TenneT Orange B.V. to buy the investment for 'The Foundation' upon offer. The obligation of TenneT Orange B.V. is largely covered by means of a guarantee issued by TenneT Holding B.V.. The fair value of the participation amounts to EUR 47 million; the fair values of the options are EUR 0 million for the call option and nil for the put option.

Details on the amounts due from the shareholder are included in note 17.

#### ① Accounting policy

Please refer to note 26, accounting policies for financial instruments.

### 14 Inventory

Inventory was primarily composed of strategic stock. The allowance for inventory is EUR 4 million (2020: EUR 3 million). The fair value of inventory was not materially different from the carrying value.

#### ① Accounting policy

Inventory is stated at the lower of cost and net realisable value. Cost comprises direct purchase costs and associated costs incurred in bringing inventories to their present condition and location. The net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make a sale.

### 15 Account- and other receivables

(EUR million)	2021	2020
Trade receivables	114	123
VAT receivable	55	-
Amounts to be invoiced	86	45
Amounts due from other related parties	14	6
Other	99	89
<b>Total</b>	<b>368</b>	<b>263</b>

#### Trade receivables

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

(EUR million)	Total	Not past due	Past due		
			0-30 days	31-60 days	More than 60 days
<b>2021</b>	<b>114</b>	<b>96</b>	<b>18</b>	-	-
2020	123	115	3	-	5

Changes in the allowance for expected credit losses are as follows:

(EUR million)	2021	2020
<b>At 1 January</b>	<b>11</b>	<b>12</b>
Charge for the year	7	-
Utilised	-	-1
Unused amounts reversed	-	-
<b>At 31 December</b>	<b>18</b>	<b>11</b>

As at 31 December 2021, receivables with an initial value of EUR 1 million (2020: EUR 1 million) were fully provided for.

#### ① Accounting policy

Please refer to note 26, accounting policies for financial instruments.

## 16 Cash and cash equivalents

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

(EUR million)	2021		2020	
	Not at free disposal	Total	Not at free disposal	Total
Collateral securities	281	281	85	85
Cash at bank	-	-	-	-
<b>Total cash and cash equivalents used in cash flow statement</b>	<b>281</b>	<b>281</b>	<b>85</b>	<b>85</b>

Cash at banks carry interest at floating rates based on daily bank deposit rates which may at times be negative.

### ① Accounting policy

In the consolidated statement of cash flows, cash and cash equivalents include cash at bank, deposits held at call with banks, other short-term highly liquid investments with remaining maturities of three months or less and are presented net of outstanding bank overdrafts. Securities are deposits on collaterals that serve as financial security for auction and energy exchange transactions. A matching debt is recognised to the party that deposited the funds as collateral. Securities are stated at fair value upon receipt and subsequently at amortised cost.

## 17 Equity

### Equity attributable to owners of the company

#### Paid-up and called-up capital

The Company's authorised share capital amounted to EUR 500 million (2020: EUR 500million), 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 contributions, made by the shareholder of ordinary shares, the Dutch State represented by the Ministry of Finance.

#### Dividend distribution

In 2021 a common full-year dividend of EUR 103 million (EUR 515 per share) to our ordinary shareholder was distributed (2020: nil). In agreement with TenneT Holding we have established a dividend policy with a pay-out of 35% of the underlying profit for the year.

#### Unappropriated result and dividend distribution

The profit for 2021 is at the free disposal of the General Meeting of Shareholders.

## 18 Borrowings

(EUR million)	Effective interest rate	Maturity	Redemption schedule	2021	2020
Loan from shareholder (TenneT Holding B.V.)	1.50%	Dec-31	At maturity	4,356	2,700
<b>Non-current interest-bearing loans</b>				<b>4,356</b>	<b>2,700</b>

TenneT TSO B.V. is financed through TenneT Holding B.V. As per 31 December 2021 the principal amount of the finance facility between TenneT Holding B.V. and TenneT TSO B.V. amounted to EUR 4,356 million (2020: EUR 2,700 million); a maximum facility has not been agreed upon. The facility matures after 10 years and is automatically extended in September of every year for another year, unless agreed upon otherwise. The facility has no financial covenants. The effective interest rate is equal to the cost of fund of TenneT Holding B.V. with a surcharge of +0.125%. TenneT TSO B.V. had no other credit facilities as at 31 December 2021 (2020: nil).

For more information about the fair value and applicable accounting policy, please refer to note 25 and 26, respectively.

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

(EUR million)	(Non) -current interest-bearing loans	Total
<b>At 1 January 2020</b>	<b>2,189</b>	<b>2,189</b>
Cash inflow from new borrowings	586	586
Cash outflow from redemptions	-75	-75
<b>At 31 December 2020</b>	<b>2,700</b>	<b>2,700</b>
Cash inflow from new borrowings	1,656	1,656
Cash outflow from redemptions	-	-
<b>At 31 December 2021</b>	<b>4,356</b>	<b>4,356</b>

#### ① Accounting policy

Please refer to note 26, accounting policies for financial instruments.

## 19 Contract liabilities

(EUR million)	Investment contributions	Other	Total
<b>At 1 January 2020</b>	<b>286</b>	-	<b>286</b>
Addition	47	-	47
Amortisation	-10	-	-10
Release to profit and loss	-	-	-
<b>At 31 December 2020</b>	<b>323</b>	-	<b>323</b>
Addition	61	1	62
Amortisation	-11	-	-11
Release to profit and loss	-	-	-
<b>At 31 December 2021</b>	<b>373</b>	<b>1</b>	<b>374</b>

(EUR million)	2021			2020		
	Investment contributions	Other contract liabilities	Total	Investment contributions	Other contract liabilities	Total
< 1 year	-	-	-	-	-	-
1-5 years	10	1	11	51	-	51
> 5 years	363	-	363	272	-	272
<b>Total</b>	<b>373</b>	<b>1</b>	<b>374</b>	<b>323</b>	<b>-</b>	<b>323</b>

#### ① Accounting policy

Contract liabilities are recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised in accordance with the related contract. At initial recognition contributions received from third parties are measured at transaction price, presented as contract liabilities ('investment contributions') and are subsequently recognised as revenue over the related asset's useful life.

## 20 Provisions

(EUR million)	2021			2020		
	Current	Non-current	Total	Current	Non-current	Total
Environmental and decommissioning	7	304	311	8	154	162
Tariff related	11	-	11	12	-	12
Other	9	22	31	8	22	30
<b>Total</b>	<b>27</b>	<b>326</b>	<b>353</b>	<b>28</b>	<b>176</b>	<b>204</b>

(EUR million)	Environmental management and decommissioning	Tariff related	Other	Total
<b>At 1 January 2020</b>	<b>61</b>	<b>14</b>	<b>24</b>	<b>99</b>
Addition	81	-	7	88
Utilisation	-	-	-2	-2
Changes in estimations	20	-2	2	20
Unused amounts reversed	-	-	-1	-1
<b>At 31 December 2020</b>	<b>162</b>	<b>12</b>	<b>30</b>	<b>204</b>
Addition	77	-1	3	155
Utilisation	-4	-	-2	-6
Changes in estimations	76	-	-	-
<b>At 31 December 2021</b>	<b>311</b>	<b>11</b>	<b>31</b>	<b>353</b>

### Provisions for environmental management and decommissioning

Provisions for environmental management and decommissioning serves to cover future obligations in relation to high-voltage connections, underground cables and offshore platforms, including decommissioning costs. In 2021 EUR 77 million was added (2020: EUR 81 million) for future decommissioning costs for projects constructed during 2021. Presented movements in the provision were not recognised through the statement of income. There was no decommissioning of substations in 2021 or 2020. In line with current regulation and permits, the first decommissioning of an offshore grid connection is expected to start in 2041.

### Tariffs related provisions

Tariff-related provisions mainly relate to provisions for system service fees. 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 amounts paid by certain parties to us without a direct grid connection. These refunds can be recouped through future tariffs. In 2021, EUR nil (2020: nil) of the provided amount matured and was released through the statement of income.

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

### Other provisions

The majority of other provisions relates to legal claims and to personnel provisions. TenneT TSO has future liabilities under the Collective Labour Agreement involving the payment of salary-related bonuses to long-serving and retiring employees on their retirement date. The size of the associated provision has been calculated on the basis of actuarial principles. The main assumptions made in this context concern the annual salary increase, the leave chance and an age-dependent retention rate.

### ① Accounting policy

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. Provisions are measured at the present value of estimated cash flows to settle obligations, based on expected price levels. Cash flows are discounted at a pre-tax rate that reflects the risks specific to the liability. The unwinding of interest components is recognised in the statement of income as a finance cost.

The 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 are recorded in tangible fixed assets. For all other provisions changes in estimated future costs and discount rates are recognised in the statement of income.

### 🔑 Key estimates and assumptions

The estimated decommissioning provision involves 1) assessing decommissioning costs and 2) assessing the expected remaining useful life of the relevant asset. The main uncertainties related to the decommissioning costs are the removal method (currently assuming reverse installation), the uncertainties around equipment and vessel availability and market rates at expected time of decommissioning. As at 31 December limited benchmark information available. Decommissioning costs are provided for at the present value of expected costs to settle the obligation. The useful life of the offshore grid connections is estimated at 20 years. For interconnectors the useful life is estimated at 40 years. This provision assumed a discount rate between 0.165% and 0.318% (2020: between 0.0% and 0.1%) and an inflation rate of 2.0% (2020: 1.8%). A change in the discount rate of 1 percent point would have a maximum impact of EUR 41 million on the asset value and liability value.

A discount rate of 0.0% is applied for environmental management provisions (2020: 0.0%). A change in discount rate of 1 percent point would have a maximum impact of EUR 0 million on the related book value.

A discount rate of 0.0% was applied for other provisions (2020: 0.0%). A change in discount rate of 1 percent point could have a maximum impact of EUR 0 million on the related book value.

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.

Due to the business TenneT TSO operates in and the Group's legal structure, TenneT TSO faces several contingent liabilities. In general the following items are recognised as contingent liabilities at TenneT TSO:

- Possible impact of the Dutch regulatory framework on TenneT TSO's business financial conditions and net income;
- Operational risks and risks related to material projects;
- Impact of environmental issues;
- Risks relating to the legal structure of TenneT TSO;
- Risks relating to the financing of TenneT TSO;
- Factors which are material for the purpose of assessing market risks.

Uncertainties relating to contingent liabilities make a reliable estimation of the financial impact impossible. For further contingent liabilities please refer to note 28.

## 21 Account- and other payables

(EUR million)	2021	2020
Accounts payable	205	91
Grid expenses payable	145	48
Social securities and other taxes payable	17	27
Payables to related parties	28	266
Other payables	133	93
<b>Total</b>	<b>528</b>	<b>525</b>

## Grid expenses payable

The grid expenses payable consists mainly of accrued expenses for (i) feed-in management and (ii) redispatch measures.

### ① Accounting policy

Please refer to note 26, accounting policies for financial instruments.

### + 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 are made in these models such as weather conditions, requested volumes and capacity per plant. 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.

## 22 Other financial liabilities

Other financial liabilities relate to collateral securities given by third parties to underwrite trading on energy exchanges and the auctioning of cross-border interconnection capacity.

### ① Accounting policy

Please refer to note 26, accounting policies for financial instruments.

## 23 Decree on Financial Management of Grid Operators

As the national network operator, TenneT must comply with the requirements in Article 43, paragraph 9, point c of the Dutch Electricity Act 1998 and Article 18a paragraph 1 of the Decree on Financial Management of Grid Operators (Besluit Financieel Beheer Netbeheerder) ("BFBN"). Following article 3b of the BFBN TenneT confirms that a credit rating agency has assigned an investment grade credit rating to TenneT TSO B.V.

## 24 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 profit in order to safeguard our ability to continue active operations while providing an adequate return to our shareholders. Our approach to managing financial risks, including a number of specific disclosures (such as a maturity analysis of contractual undiscounted financial obligations) required by accounting standards, are set out in this note. For details about our regulatory risk we refer to the 'Risk Management' section of the Management Board report.

Risk management related to financing activities is done by our Treasury department under policies included in the Treasury Statute approved by our Executive Board. 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 explicitly not authorised.

### Interest rate risk

We are exposed to interest rate risk on our debt. To limit the interest rate risk, our policy is to base of our loan on flexible interest rates. As of 31 December 2021, the long-term loan was entirely based on flexible interest rates. An increase or decrease in interest rates of 2 percentage points would not result in a material increase or decrease in our net interest cost (applicable to 2021 and 2020).

Furthermore, there is a risk that interest payable on borrowings exceeds the interest compensation received by TenneT under the prevailing regulatory system. The ACM set the relevant interest rate which linearly decreased from 3.58% in 2016 to 2.29% in 2021. In 2022 a new regulatory period will start in the Netherlands in which ACM has decided to ex post settle the interest rate for interest rates actually measured in the applicable year of the regulatory period.

### **Credit risk**

TenneT is 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 its 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 the counterparties. We also have policies in place to monitor the financial viability of counterparties.

The management of energy exchanges and the maintenance of the energy balance between supply and demand requires handling of large cash flows. TenneT TSO's policies are aimed at minimising the risks associated with the clearing transactions of these cash flows. We are responsible for maintaining the balance between supply and demand of energy. The associated costs are covered by income from parties with balance responsibility, which are charged for any imbalances attributable to them. Any surplus is deducted from the tariffs for system services. For certain situations, securities in the form of bank guarantees and collaterals are held as protection against the default risk of the 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 and the maintenance of the energy balance between supply and demand requires handling of significant cash flows. TenneT TSO's policies are aimed at minimising the risks associated with the clearing transactions of these cash flows.

Credit risk on trade and other receivables is limited, because most of our trade and other debtors have a low risk of default. Consequently, TenneT TSO requires 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 13 and 15. The movement of the allowance for expected credit losses of trade receivables is included in note 13.

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. TenneT TSO considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, TenneT TSO may also consider a financial asset to be in default when internal or external information indicates that TenneT is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by TenneT TSO.

### **Financial credit risk**

In 2021 financial credit risk arose mainly from our transactions and positions with financial institutions. As at 31 December 2021, the maximum credit risk amounted to nil (2020: nil).

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.

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

### Liquidity risk

Liquidity risk is defined as the risk that TenneT TSO cannot meet its short-term financial obligations. Our request to maintain at least 12-month liquidity was met at each quarter date, including 31 December 2021 and 31 December 2020.

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
<b>At 31 December 2020</b>							
Lease liabilities	9	2	3	12	50	115	182
Borrowings	18	-	-	49	195	2,948	3,192
Account- and other payables	21	265	1	265	-5	-	526
Other financial liabilities	22	85	-	-	-	-	85
<b>Total</b>		<b>352</b>	<b>4</b>	<b>326</b>	<b>240</b>	<b>3,063</b>	<b>3,985</b>
<b>At 31 December 2021</b>							
Lease liabilities	9	2	1	11	40	66	120
Borrowings	18					4,356	4,356
Account- and other payables	21	495	15	14	4		528
Other financial liabilities	22	281					281
<b>Total</b>		<b>778</b>	<b>16</b>	<b>25</b>	<b>44</b>	<b>4,422</b>	<b>5,285</b>

The financing arrangement with TenneT Holding B.V. is such that management expects 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. No security interest over any of TenneT TSO's assets has been provided.

We expect to meet our financial obligations for 2022 with (i) cash and cash equivalents, (ii) funds from operations (iii) unused credit facilities and (iv) capital market transactions provided by TenneT Holding B.V. We expect to meet our financial obligations for the subsequent years through various capital market transactions and equity contributions and intend to manage future refinancing risks by spreading the tenors of new financing arrangements.

### Commodity price risk

Energy purchase contracts for the forward purchase of electricity that are used to satisfy physical delivery requirements to customers, or for energy that the Group uses itself, meet the expected purchase or usage requirements of IFRS 9. They are, therefore, not recognised in the financial statements until they are realised. Disclosure of commitments under such contracts is made in note 27.

Energy purchase contracts are considered to comprise two components, being a forward purchase of power at spot prices, and a forward purchase of environmental certificates at a variable price (being the contract price less the spot power price). With respect to our current contracts, neither of these components meets the requirement to be accounted for as a derivative. As currently no liquid market for environmental certificates exists, this component meets the expected purchase or usage exemption of IFRS 9. We expect to enter into an increasing number of these contracts, in order to meet our compliance requirements in the short to medium term. It is possible that in future, if and when liquid markets develop, and to the extent that we are in receipt of environmental certificates in excess of our required levels, this exemption may cease to apply, and we may be required to account for forward purchase commitments for environmental certificates as derivatives at fair value through profit and loss.

## 25 Fair values

The fair value of the borrowings is equal to the carrying amount, including IFRS treatment, and the level is level 2 in the valuation hierarchy instruments are measured at fair value.

As at 31 December 2021, no instruments carried at fair value were held (2020: 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 2021, due to the short-term maturities of these instruments.

The following hierarchy by valuation technique was used to calculate 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 was based on discounted cash flows. A change in the assumptions used to calculate the fair value should not result in a significantly different outcome. There were no transfers between the fair value hierarchy levels during 2021 or 2020.

## 26 ⓘ Accounting policies for financial instruments

### Financial assets

All financial assets are recognised initially at fair value, net of directly attributable transaction cost.

After initial recognition financial assets are measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss. The investments in TenneT GmbH & Co. KG is recognised at fair value. TenneT TSO's other financial assets are classified as amortised cost, because the following two conditions are met:

- The financial assets are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, and
- 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.

TenneT TSO 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 TenneT TSO expects to receive, discounted at an approximation of the original effective interest rate. For trade receivables and contract assets, TenneT TSO applies a simplified approach in calculating ECLs. Therefore, TenneT TSO 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. TenneT TSO'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. EIR amortisation is included as finance expense in the statement of income.

## 27 Commitments and contingencies

Off-balance sheet rights and obligations consist of the following categories:

(EUR million)	2021	2020
<b>Off-balance sheet rights</b>		
Bank guarantees received	368	352
<b>Total off-balance sheet rights</b>	<b>368</b>	<b>352</b>
<b>Off-balance commitments</b>		
Capital commitments	2,063	1,937
<b>Total off-balance sheet obligations</b>	<b>2,063</b>	<b>1,937</b>
<b>Other off-balance items</b>		
Grid-related commitments	136	482
Guarantees issued	2	2
Other off-balance sheet commitments	41	37
<b>Total off-balance sheet obligations</b>	<b>179</b>	<b>521</b>

The expected cash flows in respect of capital commitments equal the amounts in the above table. For comfort letters issued, no cash flows are expected.

### Bank guarantees received

Bank guarantees received included guarantees for investment projects.

### Capital commitments

The majority of comfort letters received was from parties involved in the construction of onshore and offshore projects.

### Grid related commitments

Grid-related commitments included unused auction receipts, received in the Netherlands amounting to EUR 136 million (2020: EUR 482 million).

### Guarantees issued

TenneT TSO issued bank guarantees for an amount of EUR 2 million (2020: EUR 2 million).

### Other

Other off-balance sheet commitments mainly consist of:

- Claims related to alleged wrongful termination of certain construction contracts

For these items it is not practicable possible to determine the financial effect and possible timing of cash inflows and outflows.

Various other off-balance sheet commitments and contingencies as well as other off-balance sheet rights existed as of 31 December 2021 but were immaterial from a disclosure perspective. The majority of these claims related to (i) construction contracts and planning damage 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 TSO 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 financial situation.

### Environmental obligations

The Group is exposed to risks regarding environmental obligations arising from past activities. For example, a number of sites have to be decontaminated and restored to their original condition before being handed back at the end of the contractual period. Under current legislation, environmental plans and any other measures to be adopted have to be agreed with local, regional and national authorities as appropriate. As soon as such plans are approved or other legal obligations arise, a provision is formed based on the most reliable estimate possible of future expenses. TenneT is of the opinion that the currently recognised provisions are adequate, based on information currently available.

## 28 Related parties

The following related parties are part of the TenneT Holding Group. For an overview of legal entities and joint ventures that are included in the consolidated financial statements, reference is made to note 29 and note 12. Other material related parties are the State of the Netherlands: TenneT Holding B.V. is controlled by the Dutch State, which owns 100% of the Parent Company's ordinary shares.

Related party	Legal seat	Country
BritNed Development Ltd.	London	United Kingdom
Colonne B.V.	Vianen	Netherlands
DC Netz BorWin3 GmbH	Bayreuth	Germany
DC Netz DolWin4 GmbH	Bayreuth	Germany
DC Netz GmbH	Bayreuth	Germany
DC Netz HelWin1 GmbH	Bayreuth	Germany
DC Netz SylWin2 GmbH	Bayreuth	Germany
DC Nordseekabel Beteiligungs GmbH	Bayreuth	Germany
DC Nordseekabel GmbH & Co. KG	Bayreuth	Germany
DC Nordseekabel Management GmbH	Bayreuth	Germany
Duvekot Rentmeesters B.V.	Bathmen	Netherlands
EPEX SPOT S.E.	Luxemburg	Luxemburg
ETPA B.V.	Amsterdam	Netherlands
ETPA Holding B.V.	Amsterdam	Netherlands
Holding des Gestionnaires de Réseaux de Transport d'Électricité S.A.S	Paris	France
Mobile Radio Networks Vehicle B.V.	Vianen	Netherlands
Nlink International B.V.	Arnhem	Netherlands
NOVEC B.V.	Vianen	Netherlands
NOVEC GmbH	Emsbüren	Germany
Omroepmasten B.V.	Vianen	Netherlands
Open Tower Company B.V.	Vianen	Netherlands
OTCII B.V.	Vianen	Netherlands
Relined B.V.	Utrecht	Netherlands
Relined GmbH	Emsbüren	Germany
TenneT Duitsland Coöperatief U.A.	Arnhem	Netherlands
TenneT GmbH & Co. KG	Bayreuth	Germany
TenneT Green B.V.	Arnhem	Netherlands
TenneT Holding B.V.	Arnhem	Netherlands
TenneT Offshore 1. Beteiligungsgesellschaft mbH	Bayreuth	Germany
TenneT Offshore 2. Beteiligungsgesellschaft mbH	Bayreuth	Germany
TenneT Offshore 4. Beteiligungsgesellschaft mbH	Bayreuth	Germany
TenneT Offshore 7. Beteiligungsgesellschaft mbH	Bayreuth	Germany
TenneT Offshore 8. Beteiligungsgesellschaft mbH	Bayreuth	Germany
TenneT Offshore 9. Beteiligungsgesellschaft mbH	Bayreuth	Germany
TenneT Offshore Dolwin 3 Beteiligungs GmbH & Co. KG	Bayreuth	Germany
TenneT Offshore Dolwin 3 GmbH & Co. KG	Bayreuth	Germany
TenneT Offshore Dolwin 3 Verwaltungs GmbH	Bayreuth	Germany
TenneT Offshore GmbH	Bayreuth	Germany
TenneT Orange B.V.	Arnhem	Netherlands
TenneT TSO Duitsland B.V.	Arnhem	Netherlands
TenneT TSO GmbH	Bayreuth	Germany
TenneT Verwaltungs GmbH	Bayreuth	Germany
TransTenneT B.V.	Arnhem	Netherlands
WL Winet B.V.	Vianen	Netherlands
WL Winet GmbH in liquidation	Emsbüren	Germany

Report in accordance with article 18 paragraph 3 of the electricity act 1998.

The relationship between TenneT TSO B.V. and its related parties within the TenneT Holding Group is compliant with the requirements of article 18 paragraph 1 of the electricity act 1998. The related parties perform the activities the transmission system operator is not allowed to in accordance with article 17a of the electricity act 1998. This implies TenneT TSO B.V. does not provide benefits to group companies which are not awarded to third parties nor does it provide group companies with other benefits exceeding normal trade practice. The following items are considered as benefits to group companies or awarding benefits exceeding normal trade practice:

- Providing a group company with data relating to customers, not being customers as included in article 95a paragraph 1 of the electricity act 1998, who have made a request as meant in article 23 or 24 of the electricity act 1998;
- Providing goods or services to a group company at a price lower than the reasonably attributable costs; or
- Allowing the use of the name and logo of the transmission system operator in a way that could confuse the public regarding the origin of goods and services.

Interest expenses have been charged by TenneT Holding B.V. and other group companies in total of EUR 57 million.

Interest expenses have been charged to other group companies in total of EUR 1 million.

Revenue is charged for a total of EUR 21 million to TenneT Germany and for EUR 10 million to other group entities.

Other expenses charged by TenneT Germany for a total of EUR 5 million.

## 29 Consolidated subsidiaries

The following legal entities are included in the consolidation of TenneT TSO B.V.:

Subsidiary	Legal seat	Country	Voting interest		Economic interest		
			2021	2020	2021	2020	
B.V. Transportnet Zuid-Holland	Voorburg	Netherlands	100%	100%	100%	100%	*
CertiQ B.V.	Arnhem	Netherlands	100%	100%	100%	100%	
Nadine Netwerk B.V.	Arnhem	Netherlands	100%	100%	100%	100%	*
Saranne B.V.	Arnhem	Netherlands	100%	100%	100%	100%	*
Stichting Beheer Doelgelden Landelijk Hoogspanningsnet	Arnhem	Netherlands	100%	100%	N/A	N/A	

\* 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.

As TenneT is able to exercise direct control over its management and financial and operational policies, 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., is included in the consolidation.

## 30 Events after the reporting period

The Russian invasion in Ukraine does not have an impact on TenneT's tangible assets. It could have an impact on TenneT through higher energy prices and higher cost of supplies that are needed for maintenance and investment projects. The situation is continuously being monitored in close alignment with the Dutch and German governments.

In January 2022, due to the weather events related to storm Corrie, an adrift cargo vessel collided with the jacket of Hollandse Kust Zuid Beta. We are currently investigating the effects of this collision, to get a clear picture of the exact damage to the jacket so that we can make a plan for necessary repairs.

# Company financial statements

## Company statement of income

For the year ended 31 December (EUR million)

	Notes	2021	2020
<b>Revenue</b>	3	<b>1,341</b>	<b>1,122</b>
Grid expenses	4	-1,074	-447
Personnel expenses	4	-127	-105
Depreciation and amortisation of assets	8,9,10	-281	-272
Other operating expenses	4	-132	-100
Other (gains)/losses		3	2
<b>Total operating expenses</b>		<b>-1,611</b>	<b>-922</b>
Share in profit of joint ventures and associates	12	1	1
<b>Operating profit</b>		<b>-269</b>	<b>201</b>
Finance income		-	10
Finance expenses	5	-46	-31
<b>Finance result</b>		<b>-46</b>	<b>-21</b>
<b>Profit before income tax</b>		<b>-315</b>	<b>180</b>
Income tax expense	6	83	-47
Profit from participating interests		-	2
<b>(Loss)/Profit for the year</b>		<b>-232</b>	<b>135</b>
<b>Other comprehensive income (net of tax)</b>		<b>-</b>	<b>-</b>
<b>Total comprehensive income</b>		<b>-232</b>	<b>135</b>

## Company statement of financial position

For the year ended 31 December (EUR million)

Assets	Notes	2021	2020
<b>Non-current assets</b>			
Tangible fixed assets	36	7,613	6,336
Right-of-use assets	9	118	116
Intangible assets	37	168	139
Investments in subsidiaries	38	606	606
Investments in joint ventures and associates	12	2	2
Deferred tax assets	44	103	-
Other financial assets	13	8	59
<b>Total non-current assets</b>		<b>8,618</b>	<b>7,258</b>
<b>Current assets</b>			
Inventories	14	4	3
Account- and other receivables	40	416	263
Cash and cash equivalents	16, 41	281	85
<b>Total current assets</b>		<b>701</b>	<b>351</b>
<b>Total assets</b>		<b>9,319</b>	<b>7,609</b>

Equity and liabilities	Notes	2021	2020
Paid-up and called capital		100	100
Share premium reserve		1,790	1,790
Retained earnings		1,335	1,326
Revaluation reserve		12	22
Reserve for internally generated intangible assets		88	55
Unappropriated result		-233	135
<b>Total equity</b>	42	<b>3,092</b>	<b>3,428</b>
<b>Non-current liabilities</b>			
Borrowings	18	4,356	2,700
Contract liabilities	43	367	316
Deferred tax liability	44	-	40
Provisions	45	326	176
Lease liabilities	9	106	104
<b>Total non-current liabilities</b>		<b>5,155</b>	<b>3,336</b>
<b>Current liabilities</b>			
Provisions	45	27	28
Other financial liabilities	47	281	85
Lease liabilities	9	14	13
Account- and other payables	46	750	719
<b>Total current liabilities</b>		<b>1,072</b>	<b>845</b>
<b>Total equity and liabilities</b>		<b>9,319</b>	<b>7,609</b>

# Notes to the company financial statements

These notes contain information about the company financial statements of TenneT TSO B.V.. Details related to TenneT TSO 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.

## 31 Company accounting policies

The company financial statements for TenneT TSO B.V. have been prepared in accordance with the provisions of Part 9, Book 2 of the Dutch 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 Dutch Civil Code.

Expected Credit Losses (ECL) provisions for receivables from subsidiaries have been eliminated as intercompany positions. Changes in these ECL provisions may impact the carrying amounts of the financial assets in the company statement of the financial position due to a possible provision. This may result in a difference between the company's equity and the consolidated equity. No ECL provision was deemed necessary.

## 32 Revenue

(EUR million)	2021	2020
Connection and transmission services	801	737
Offshore revenues	160	149
Maintenance of the energy balance	166	97
Operation of energy exchanges	160	96
Other	23	17
Inter-segment	31	26
<b>Total</b>	<b>1,341</b>	<b>1,122</b>

## 33 Other operating expenses

Part of the other operating expenses is the total fee Deloitte network firms in 2021 and 2020. For further disclosure regarding other operating expenses, please refer to the consolidated financial statements (note 4).

## 34 Finance income

The result on finance income fully related to the interest received on a participation in TenneT TSO Duitsland B.V. The intercompany agreements were made on terms equivalent to those that prevail in arm's length transactions.

## 35 Finance expenses

The finance expenses mainly related to the interest on borrowings from the parent.

### 36 Tangible fixed assets

(EUR million)	High-voltage substations	High-voltage connections	Other assets	Assets under construction	Total
<b>Cost</b>					
<b>At 1 January 2020</b>	<b>2,556</b>	<b>2,728</b>	<b>299</b>	<b>1,386</b>	<b>6,969</b>
Additions	26	123	-	1,073	1,222
Transfers	287	469	18	-772	2
Changes in estimations	-	-	-	-	-
Disposals	-	-	-1	-	-1
<b>At 31 December 2020</b>	<b>2,869</b>	<b>3,320</b>	<b>316</b>	<b>1,687</b>	<b>8,192</b>
Additions	-	152	-	1,350	1,502
Transfers	178	136	4	-317	1
Changes in estimations	-	-	-	-	-
Disposals	-	-	-	-4	-4
<b>At 31 December 2021</b>	<b>3,047</b>	<b>3,608</b>	<b>320</b>	<b>2,716</b>	<b>9,691</b>
<b>Depreciation and impairment</b>					
<b>At 1 January 2020</b>	<b>780</b>	<b>727</b>	<b>141</b>	<b>-</b>	<b>1,648</b>
Depreciation for the year	89	98	21	-	208
Disposals	-	-	-	-	-
<b>At 31 December 2020</b>	<b>869</b>	<b>825</b>	<b>162</b>	<b>-</b>	<b>1,856</b>
Depreciation for the year	96	107	19	-	222
Disposals	-	-	-	-	-
<b>At 31 December 2021</b>	<b>965</b>	<b>932</b>	<b>181</b>	<b>-</b>	<b>2,078</b>
<b>Net book value:</b>					
At 1 January 2020	1,776	2,001	158	1,386	5,321
At 31 December 2020	2,000	2,495	154	1,687	6,336
At 31 December 2021	2,082	2,676	139	2,716	7,613

For disclosure regarding material movements, please refer to note 8.

### 37 Intangible assets

(EUR million)	Goodwill	Software	Customer contracts	Other intangible assets	Intangible assets under construction	Total
<b>Cost</b>						
<b>At 1 January 2020</b>	<b>1</b>	<b>206</b>	<b>42</b>	<b>26</b>	<b>34</b>	<b>309</b>
Additions	-	-	-	-	59	59
Transfers	-	34	-	-	-35	-1
<b>At 31 December 2020</b>	<b>1</b>	<b>240</b>	<b>42</b>	<b>26</b>	<b>58</b>	<b>367</b>
Additions	-	-	-	-	49	49
Transfers	-	51	-	-	-51	-
<b>At 31 December 2021</b>	<b>1</b>	<b>291</b>	<b>42</b>	<b>26</b>	<b>56</b>	<b>416</b>
<b>Amortisation and impairment</b>						
<b>At 1 January 2020</b>	<b>-</b>	<b>168</b>	<b>35</b>	<b>5</b>	<b>-</b>	<b>208</b>
Amortisation for the year	-	17	3	-	-	20
<b>At 31 December 2020</b>	<b>-</b>	<b>185</b>	<b>38</b>	<b>5</b>	<b>-</b>	<b>228</b>
Amortisation for the year	-	16	3	1	-	20
<b>At 31 December 2021</b>	<b>-</b>	<b>201</b>	<b>41</b>	<b>6</b>	<b>-</b>	<b>248</b>
<b>Net book value:</b>						
At 1 January 2020	1	38	7	21	34	101
At 31 December 2020	1	55	4	21	58	139
At 31 December 2021	1	90	1	20	56	168

### 38 Investments in subsidiaries

Investments in subsidiaries relate to the legal entities included in the consolidation as disclosed in note 29 of the consolidated financial statements.

Investments in subsidiaries were measured at net asset value. Net asset value of a participating interest was determined by valuing the assets, provisions and liabilities and calculating the result using the accounting principles applied to the consolidated financial statements.

Following the formation of TenneT as the national high voltage grid operator, TenneT TSO has acquired subsidiaries that formally own components of the onshore grid in the Netherlands. For legal reasons, these entities still exist and continue to own the grid assets. Within the TenneT TSO group, all revenues and expenses of these entities are charged to TenneT TSO under the provisions of intercompany arrangements. All entities are part of the same fiscal unity for income tax purposes.

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

### 39 Other financial assets

Financial assets mainly comprised of a receivable from the shareholder (TenneT Holding B.V.).

### 40 Account- and other receivables

(EUR million)	2021	2020
Trade receivables	114	122
Amounts to be invoiced	86	45
VAT receivables	56	-
Other	160	96
<b>Total</b>	<b>416</b>	<b>263</b>

'Other' increased mainly due to revenue to be received from offshore.

### 41 Cash and cash equivalents

Please refer to note 16.

### 42 Equity

The statement of changes in equity and disclosure to that statement are included in the consolidated financial statements.

The appropriation of profits is governed by Section 38.3 of the Articles of Association, which states: 'Subject to approval by the Supervisory Board, the Management Board may reserve a portion of any profit that may remain after application of the provisions of clause 2, sufficient in the Management Board's view to finance capital expenditure to support fulfilment of the company's statutory duties as grid administrator, such as maintenance, expansion and environmental management. Any profit which is not thus reserved shall be at the free disposal of the General Meeting of Shareholders. When calculating the amount of profit to be paid out on each share, account shall be taken only of the sum of the obligatory call on the nominal value of the shares. In the event of a tied vote regarding the distribution or reservation of profits, the profit to which the proposal relates shall be reserved'.

(EUR million)	Reserve for internally generated intangible assets	Revaluation reserve	Total legal reserve
<b>At 1 January 2020</b>	<b>62</b>	<b>33</b>	<b>95</b>
Internally generated intangible assets	32	-	32
Depreciation on internally generated intangible assets	-39	-	-39
Depreciation revaluation tangible fixed assets	-	-11	-11
<b>At 31 December 2020</b>	<b>55</b>	<b>22</b>	<b>77</b>
Internally generated intangible assets	52	-	52
Depreciation on internally generated intangible assets	-19	-	-19
Depreciation revaluation tangible fixed assets	-	-10	-10
<b>At 31 December 2021</b>	<b>88</b>	<b>12</b>	<b>100</b>

In addition to the statement of changes in equity, a legal reserve was formed within shareholder equity for a revaluation of EUR 12 million (2020: EUR 22 million).

The legal reserve for internally generated intangible assets relates to software and amounts to EUR 88 million (2020: EUR 55 million).

The revaluation reserve serves to cover the revaluation of tangible fixed assets within TenneT TSO's national high-voltage grid. Following the implementation of IFRS on 1 January 2004, the fair value exception provided for in IFRS 1 has been applied. This one-off exception allows tangible fixed assets to be stated at their fair value on the transition date. This figure has subsequently been used as the 'deemed cost price'. The size of the revaluation reserve corresponds to that part of the restated value of the tangible fixed assets resulting from application of the fair value exception, less the deferred tax liability.

The legal reserves are not freely distributable.

### Appropriation of result for the year ended 31 December 2021

The annual report 2021 was approved in the General Meeting held on 7 March 2022. The General Meeting has determined the appropriation of result in accordance with the proposal being made to that end.

### 43 Contract liabilities

(EUR million)	Investment contributions	Other	Total
<b>At 1 January 2020</b>	<b>277</b>	<b>1</b>	<b>278</b>
Addition	48	-	48
Amortisation	-10	-	-10
<b>At 31 December 2020</b>	<b>315</b>	<b>1</b>	<b>316</b>
Addition	59	1	60
Amortisation	-9	-	-9
Release to profit and loss	-	-	-
<b>At 31 December 2021</b>	<b>365</b>	<b>2</b>	<b>367</b>

(EUR million)	2021			2020		
	Investment contributions	Other contract liabilities	Total	Investment contributions	Other contract liabilities	Total
< 1 year	-	-	-	-	-	-
1-5 years	-9	-1	-10	-51	-	-51
> 5 years	-357	-	-357	-265	-	-265
<b>Total</b>	<b>-366</b>	<b>-1</b>	<b>-367</b>	<b>-316</b>	<b>-</b>	<b>-316</b>

### 44 Deferred tax liability

(EUR million)	Statement of financial position		Statement of income	
	2021	2020	2021	2020
Auction receipts	-14	-81	-68	-31
Investment contributions	-66	-66	-	6
Tariffs to be settled	86	24	-62	27
Depreciation for tax purposes	91	77	-15	-18
Provisions	5	5	-	-2
Other	1	1	2	-
<b>Net deferred tax assets/(liabilities)</b>	<b>103</b>	<b>-40</b>		
<b>Deferred tax expense/(income)</b>			<b>-143</b>	<b>-18</b>

For further disclosure regarding income tax, please refer to the consolidated financial statements (note 7).

## 45 Provisions

For the movements in provisions, please refer to the consolidated financial statements (note 20).

## 46 Account- and other payables

(EUR million)	2021	2020
Payables to related parties	252	461
Accounts payable	205	91
Taxes and social securities	17	27
Other payables	276	140
<b>Total</b>	<b>750</b>	<b>719</b>

A list of all related parties can be found in note 28 of the consolidated financial statements. Other payables mainly comprised of personnel payables, invoices to be received and investment related payables.

## 47 Other financial liabilities

Other financial liabilities related to collateral securities given by third parties to underwrite trading on energy exchanges and the auctioning of cross-border interconnection capacity.

## 48 Off-Balance sheet commitments

Details on the off-balance sheet commitments are included in the consolidated financial statements, please refer to note 27.

## 49 Events after the reporting period

Refer to [note 30](#) of the consolidated financial statements.

Arnhem, 7 March 2022

Management Board of TenneT TSO B.V.

A.C.H. Freitag  
M.C. Abbenhuis  
T.C. Meyerjürgens

TenneT TSO B.V.  
Utrechtseweg 310  
6812 AR Arnhem  
Chamber of Commerce register 09155985

# Other information

## Profit appropriation

Profit appropriation is governed by Section 38.3 of the Articles of Association, which states the following “To the extent that the profit is not used to make up prior losses in accordance with the provision of paragraph 2, it shall be at the free disposal of the general meeting. In the calculation of the profit amount to be distributed on every share, only the amount of the compulsory payments on the nominal amount of the shares shall be taken into consideration. In the event of a tied vote on a proposal to distribute or reserve profits, the profits to which the proposal relates shall be reserved”.

## Independent auditor's report

To: the Shareholder of TenneT TSO B.V.

### Report on the audit of the financial statements 2021 included in the annual report

#### Our opinion

We have audited the accompanying financial statements 2021 of TenneT TSO B.V. (the “**Company**” or “**TenneT**”) based in Arnhem, The Netherlands. The financial statements include the consolidated financial statements and the company financial statements.

In our opinion:

- the accompanying consolidated financial statements give a true and fair view of the financial position of TenneT TSO B.V. as at 31 December 2021, and of its result and its cash flows for 2021 in accordance with International Financial Reporting Standards as adopted by the European Union (“**EU-IFRS**”) and with Part 9 of Book 2 of the Dutch Civil Code; and
- the accompanying company financial statements give a true and fair view of the financial position of TenneT TSO B.V. as at 31 December 2021, and of its result for 2021 in accordance with Part 9 of Book 2 of the Dutch Civil Code.

The consolidated financial statements comprise:

1. the consolidated statement of financial position as at 31 December 2021;
2. the following statements for 2021: the consolidated statement of income, the consolidated statements of comprehensive income, changes in equity and cash flows; and
3. the notes comprising a summary of the significant accounting policies and other explanatory information.

The company financial statements comprise:

1. the company statement of financial position as at 31 December 2021;
2. the company statement of income for 2021; and
3. the notes comprising a summary of the accounting policies and other explanatory information.

#### Basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the “Our responsibilities for the audit of the financial statements” section of our report.

We are independent of TenneT TSO B.V. in accordance with the EU Regulation on specific requirements regarding statutory audit of public-interest entities, the Wet toezicht accountantsorganisaties (Wta, Audit firms supervision act), the Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore, we have complied with the Verordening gedrags- en beroepsregels accountants (VGBA, Dutch Code of Ethics).

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Information in support of our opinion

We designed our audit procedures in the context of our audit of the financial statements as a whole and in forming our opinion thereon. The following information in support of our opinion was addressed in this context, and we do not provide a separate opinion or conclusion on these matters.

#### Materiality

Based on our professional judgement we determined the materiality for the financial statements as a whole at EUR 40 million. The materiality is based on 1.3% of equity, as set out in note 17 of the consolidated financial statements. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for the users of the financial statements for qualitative reasons.

Component audits are performed using the materiality levels determined by the judgement of the group engagement team, considering materiality for the consolidated financial statements as a whole and the reporting structure of the group. For the largest reporting entities, the audits are performed using the following component materiality levels:

- (i) TenneT TSO B.V. EUR 40 million;
- (ii) Nadine Netwerk B.V. EUR 20 million; and
- (iii) B.V. Transportnet Zuid-Holland EUR 20 million

For the other reporting entities, the component materiality used is EUR 20 million.

We agreed with the Supervisory Board of TenneT Holding B.V. that misstatements in excess of EUR 2 million, which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

### Scope of the group audit

TenneT TSO B.V. is the head of a group of entities. The financial information of this group is included in the consolidated financial statements of TenneT TSO B.V.

Because we are ultimately responsible for the opinion, we are responsible for directing, supervising and performing the group audit. In this respect we have determined the nature and extent of the audit procedures to be carried out for reporting entities. Decisive were the size and/or the risk profile of the reporting entities or operations. On this basis, we selected reporting entities for which an audit had to be carried out on the complete set of financial information or specific items.

In establishing the overall group audit strategy and plan, we determined the type of work that needed to be performed at the components by the group engagement team and the component auditors.

Our group audit mainly focused on the significant group entity TenneT TSO B.V., because this company make up more than 90% of the group's revenue, underlying operating profit and assets. We performed other procedures with respect to residual risk in components and account balances that have not been included in audit scope.

The group engagement team performed the audit procedures at all group entities. Specialists were involved in the areas of tax, accounting, valuation and information technology.

We have obtained the following audit coverage of the group with our audit procedures:

Audit coverage	
Revenue	97%
Underlying operating profit	97%
Assets	97%

By performing the procedures mentioned above at group entities, together with additional procedures at group level, we have been able to obtain sufficient and appropriate audit evidence about the group's financial information to provide an opinion about the consolidated financial statements.

### Our key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements. We have communicated the key audit matters to the Supervisory Board. The key audit matters are not a comprehensive reflection of all matters discussed.

These matters were addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matters	How the key audit matter was addressed in the audit
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### Tangible fixed assets

Securing supply and facilitating the integration of sustainable energy sources into the high-voltage grid require substantial investments and flexible access to (equity) funding. TenneT expects to increase its annual investment volume in on- and offshore grid connections significantly.

We have included this as a key audit matter because of:

- the financial significance of the capital expenditures;
- the risks associated with large investment projects, complexity in procurement, construction and timely completion; and
- the professional judgment required in estimating the useful lives of assets and in identifying any potential impairment (triggers).

We evaluated management's estimation of the useful lives of tangible fixed assets based on economical, regulatory and technical data.

Also, we have evaluated management's impairment trigger analyses noting that such a trigger was identified. As a consequence, TenneT performed an impairment test for these assets as at December 31, 2021. The impairment test comprised of assessing the recoverable amount by means of a value-in-use calculation using a discounted cash flow model. The resulting recoverable amount is higher than the carrying amount. Therefore, no impairment is recorded in the financial statements 2021. The main assumptions used in the calculation of the recoverable amount are disclosed in the financial statements Note 8. Furthermore, we evaluated the appropriateness of the disclosure of the accounting policy and estimation uncertainty of the impairment test.

#### Observation

No reportable matters were identified as a result of our procedures.

### Provision for decommissioning of (offshore) assets

Moving towards a renewable future involves significant investments in (offshore) assets that are to be decommissioned over the next 20 to 40 years, thus requiring recognition of decommission provisions. The corresponding provisions are based on estimates of costs, timing of decommissioning, discount rates and inflation.

We have included this as a key audit matter because of:

- the significance of the provision and additions for the year triggered by the start of construction of new (offshore) assets; and
- the uncertainty involved in measuring the provision and sensitivity to changes in key assumptions, including the cost base, the inflation rate and the discount rate.

We have obtained management's position papers on the cost assumptions. Our audit procedures include testing of design and implementation of relevant controls around the periodical assessment of these assumptions and the evaluation of the financial model used to calculate the provision.

Our substantive audit procedures further include an assessment of the reasonability of the key assumptions (including involvement of a specialist with regards to the cost assumptions) through comparison with observable market data and procedures to address the completeness of the provision. Furthermore, we evaluated the appropriateness of the disclosure of the accounting policy and estimation uncertainty of these provisions.

#### Observation

We considered management's key assumptions, to be within the reasonable range of our own expectations.

## Consideration of fraud in the audit of the financial statements

Description	Response
<p>An auditor conducting an audit in accordance with Dutch Standards on Auditing is responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. Owing to the inherent limitations of an audit, there is an unavoidable risk that some material misstatements of the financial statements may not be detected. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. We have exercised professional judgement and have maintained professional skepticism throughout our audit in identifying and assessing the risks of material misstatement of the financial statements due to fraud, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.</p>	<p>We performed the following procedures:</p> <ul style="list-style-type: none"> <li>• In identifying potential risks of material misstatement due to fraud, we obtained an understanding of TenneT and its environment, including its internal controls. We evaluated TenneT's fraud risk assessment and made inquiries with management, those charged with governance and others within TenneT, including but not limited to the functions (i) Internal Audit, (ii) Compliance &amp; Integrity and (iii) Financial Governance &amp; Services. We evaluated several fraud risks factors to consider whether those factors indicated a risk of material misstatement due to fraud.</li> <li>• Following these procedures, and the presumed risks under the prevailing auditing standards, we considered the fraud risks in relation to management override of controls, including evaluating whether there was evidence of bias by the Supervisory Board, the Executive Board and other members of management, which may represent a risk of material misstatement due to fraud. As part of the fraud risk of management override of controls, we identified the risk of classification of operational expenditure as capitalized expenditure due to the differences in related regulatory accounting and thus future revenues.</li> <li>• We made inquiries of management, those charged with governance and others within TenneT regarding the risk of material misstatements in the financial statements due to fraud, their process for identifying and responding to the risk of fraud, the internal communication regarding their views on business practices and ethical behaviour and whether they have knowledge of any actual, suspected or alleged fraud affecting the company.</li> <li>• We held discussions amongst team members and component auditors to identify fraud risk factors and considered whether other information obtained from our risk assessment procedures indicated risks of material misstatement due to fraud. Fraud risk factors identified include among others: <ul style="list-style-type: none"> <li>- Fraud, bribery and corruption;</li> <li>- Compliance with respect to trade regulations/sanctions;</li> <li>- Compliance with respect to environmental requirements;</li> <li>- Compliance with procurement policies;</li> </ul> </li> <li>• We evaluated whether unusual or unexpected relationships have been identified in performing analytical procedures, that may indicate risks of material misstatement due to fraud.</li> <li>• We involved forensic specialists, focused on our fraud and non-compliance risk assessment, inquiries with management, the evaluation of the internal control environment and in determining the audit response.</li> <li>• We determined overall responses to address the assessed risks of material misstatement due to fraud at the financial statement level or at the assertion level by: <ul style="list-style-type: none"> <li>- assigning and supervising personnel with the adequate knowledge, skills and ability;</li> <li>- evaluating whether the selection and application of accounting policies by the group, particularly those related to subjective measurements and complex transactions, may be indicative of fraudulent financial reporting;</li> <li>- incorporated an element of unpredictability in the selection of the nature, timing and extent of our audit procedures. Among others, these</li> <li>- include the selection of fixed asset project tested and expense sampling selection criteria. <ul style="list-style-type: none"> <li>- tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;</li> <li>- evaluated whether the judgments and decisions made by management in making the accounting estimates included in the financial statements indicate a possible bias that may represent a risk of material misstatement due to fraud. Significant accounting judgements, estimates and assumptions that might have a major impact on the financial statements are disclosed in note 1 of the consolidated financial statements.</li> <li>- Impairment testing of the assets, grid expense payables and the provision for decommissioning were focus areas in our audit as the related account balances are subject to significant management judgment. Reference is made to the section "Our key audit matters";</li> </ul> </li> </ul> </li> <li>• We performed a retrospective review of management judgments and assumptions related to significant accounting estimates such as cost assumptions on the decommissioning provisions reflected in prior year financial statements.</li> </ul>

## Consideration of laws and regulations in the audit of financial statements

Description	Response
<p>We are responsible for obtaining reasonable assurance that the financial statements, taken as a whole, are free from material misstatement, whether due to fraud or error taking into account the applicable legal and regulatory framework. However, we are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.</p> <p>Owing to the inherent limitations of an audit, there is an unavoidable risk that some material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the auditing standards. In the context of laws and regulations, the potential effects of inherent limitations on the auditor's ability to detect material misstatements are greater for such reasons as the following:</p> <ul style="list-style-type: none"> <li>• There are many laws and regulations, relating principally to the operating aspects of an entity, that typically do not affect the financial statements and are not captured by the entity's information systems relevant to financial reporting.</li> <li>• Non-compliance may involve conduct designed to conceal it, such as collusion, forgery, deliberate failure to record transactions, management override of controls or intentional misrepresentations being made to the auditor.</li> <li>• Whether an act constitutes non-compliance is ultimately a matter to be determined by a court or other appropriate adjudicative body.</li> </ul> <p>Ordinarily, the less directly non-compliance is linked to the events and transactions reflected in the financial statements, the less likely the auditor is to become aware of it or to identify the non-compliance.</p>	<p>We performed the following procedures:</p> <ul style="list-style-type: none"> <li>• As part of obtaining an understanding of TenneT and its environment we obtained a general understanding of the legal and regulatory framework applicable to TenneT and the industry in which it operates and how TenneT is complying with that framework.</li> <li>• We assessed the laws and regulations relevant to the Company through discussion with management, those charged with governance and others within TenneT, including but not limited to the functions (i) Internal Audit, (ii) Compliance &amp; Integrity, (iii) Legal Affairs, (iv) Regulatory Affairs and (v) Financial Governance &amp; Services. We have read related minutes and reports. We involved our forensic specialists in our evaluation.</li> <li>• We obtained sufficient appropriate audit evidence regarding provisions of those laws and regulations generally recognized to have a direct effect on the determination of material amounts and disclosures in the financial statements such as (corporate) tax and pension laws and financial reporting regulations, the requirements under the International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and Part 9 of Book 2 of the Dutch Civil Code.</li> <li>• Apart from these, TenneT is subject to other laws and regulations where the consequences of non-compliance could have a material effect on amounts and/or disclosures in the financial statements, for instance, through imposing fines or litigation. Given the nature of TenneT's business and the complexity of energy laws and regulations in The Netherlands, as well as environmental laws, there is a risk of non-compliance with the requirements of such laws and regulations. In addition, we considered relevant laws and regulations applicable to listed companies.</li> </ul> <p>Our procedures are more limited with respect to other laws and regulations that do not have a direct effect on the determination of the amounts and disclosures in the financial statements. These laws and regulations compliance may be fundamental to the operating aspects of the business, to TenneT's ability to continue its business, or to avoid material penalties (e.g., compliance with the terms energy laws in The Netherlands or compliance with environmental regulations) and therefore non-compliance with such laws and regulations may have a material effect on the financial statements. Our responsibility is limited to undertaking specified audit procedures to help identify non-compliance with those laws and regulations that may have a material effect on the financial statements.</p> <ul style="list-style-type: none"> <li>• Our procedures are limited to (i) inquiry of the Executive Board, the Supervisory Board and others within TenneT as to whether the company is in compliance with such laws and regulations and (ii) inspecting correspondence, if any, with the relevant licensing or regulatory authorities to help identify non-compliance with those laws and regulations that may have a material effect on the financial statements.</li> <li>• Naturally, we remained alert to the indications of (suspected) non-compliance throughout the audit.</li> <li>• Finally, we obtained written representations that all known instances of (suspected) fraud or non-compliance with laws and regulations have been disclosed to us.</li> </ul>

## Report on the other information included in the integrated annual report

In addition to the financial statements and our auditor's report thereon, the annual report contains other information that consists of the:

1. Director's Report, consisting of:
  - About TenneT;
  - Management Board Report.
2. Other Information as required by Part 9 of Book 2 of the Dutch Civil Code.
3. Other information included in the annual report.

Based on the following procedures performed, we conclude that the other information:

1. is consistent with the financial statements and does not contain material misstatements; and
2. contains the information as required by Part 9 of Book 2 of the Dutch Civil Code.

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements.

By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is substantially less than the scope of those performed in our audit of the financial statements.

Management is responsible for the preparation of the other information, including the Director's Report in accordance with Part 9 of Book 2 of the Dutch Civil Code, and the other information as required by Part 9 of Book 2 of the Dutch Civil Code.

## Report on other legal and regulatory requirements

### Engagement

We were appointed by the General Meeting as statutory auditor of TenneT TSO B.V. on 18 December 2019. The audit of the financial year 2020 was our initial audit engagement.

### No prohibited non-audit services

We have not provided prohibited non-audit services as referred to in Article 5(1) of the EU Regulation on specific requirements regarding statutory audit of public-interest entities.

## Description of responsibilities regarding the financial statements

### Responsibilities of management and the Supervisory Board for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with EU-IFRS and Part 9 of Book 2 of the Dutch Civil Code, and for the preparation of the Director's Report in accordance with Part 9 of Book 2 of the Dutch Civil Code.

Furthermore, management is responsible for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, management is responsible for assessing the Company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, management should prepare the financial statements using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Management should disclose events and circumstances that may cast significant doubt on the Company's ability to continue as a going concern in the financial statements.

The Supervisory Board is responsible for overseeing the Company's financial reporting process.

## Our responsibilities for the audit of the financial statements

Our objective is to plan and perform the audit assignment in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not detect all material errors and fraud during our audit.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

We have exercised professional judgement and have maintained professional scepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit included e.g.:

1. Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtaining an understanding of internal control relevant to the audit 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.
3. Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Concluding on the appropriateness of management's use of the going concern basis of accounting, and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
5. Evaluating the overall presentation, structure and content of the financial statements, including the disclosures.
6. Evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Because we are ultimately responsible for the opinion, we are also responsible for directing, supervising and performing the group audit. In this respect we have determined the nature and extent of the audit procedures to be carried out for group entities. Decisive were the size and/or the risk profile of the group entities or operations. On this basis, we selected group entities for which an audit or review had to be carried out on the complete set of financial information or specific items.

We communicate with management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant findings in internal control that we identified during our audit. In this respect we also submit an additional report to the audit committee of TenneT Holding B.V. in accordance with Article 11 of the EU Regulation on specific requirements regarding statutory audit of public-interest entities. The information included in this additional report is consistent with our audit opinion in this auditor's report.

We provide the Supervisory Board of TenneT Holding B.V. with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Supervisory Board of TenneT Holding B.V., we determine the key audit matters: those matters that were of most significance in the audit of the financial statements. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.

Zwolle, 7 March 2022

Deloitte Accountants B.V.

Signed by G.C. Hamer

## Glossary

### **ABP – Algemeen Burgerlijk Pensioenfonds**

ABP, is the civil service pension fund for government, education and energy employees in the Netherlands.

### **AC – Alternating current**

In alternating current (AC), the flow of electricity periodically reverses direction. By contrast direct current (DC), electricity only flows in one direction. AC is used to transport electricity over relatively shorter distances and DC for relatively longer distances.

### **ACM – Autoriteit Consument & Markt**

Dutch national regulatory authority.

### **BFBN – Besluit Financieel Beheer Netbeheerder**

Rules made by the Dutch state relating to the financial management of the system operator.

### **Capex – Capital expenditure**

Capital expenditure (Capex) is the amount spent on acquiring or improving long-term assets. Its benefits are enjoyed over a long time period, not only in the current year. Capex is of a non-recurring nature and results in the acquisition of permanent assets.

### **Carbon footprint**

The total amount of greenhouse gases produced to directly and indirectly support human activities, usually expressed in equivalent tons of carbon dioxide (CO<sub>2</sub>).

### **CGU – Cash generating unit**

A cash-generating unit is the smallest group of assets that independently generates cash flow and whose cash flow is largely independent of the cash flows generated by other assets.

### **COBRACable**

A 275 km-long high-voltage direct current cable that is under construction to connect the Dutch and Danish electricity grids. It will have a capacity of 700 MW.

### **COSO – Committee of Sponsoring Organisations of the Treadway Commission**

COSO has established the common internal control model against which companies and organisations assess their control systems.

### **CO<sub>2</sub> – Carbon dioxide**

Carbon dioxide is a greenhouse gas formed by the burning of carbon-based fuels. Its concentration in the atmosphere is rapidly increasing, leading to global warming.

### **CPI index**

A consumer price index measures changes in the price level of a weighted average market basket of consumer goods and services purchased by households.

### **DC – Direct current**

In direct current (DC), the flow of electricity is only in one direction. In alternating current (AC), the electricity flows periodically reverses direction. DC is used to transport electricity over relatively longer distances and AC for relatively shorter distances.

### **DNB – De Nederlandsche Bank**

Central Bank of the Netherlands.

### **DSO – Distribution systemoperator**

A regional electricity distribution company, that is connected with end users and is responsible for providing (1) power distribution services, by constructing and maintaining a robust high-voltage grid, and (2) facilitating a smooth functioning, liquid and stable electricity market.

### **EBIT – Earnings before interest and tax**

Earnings for the period before income tax expense and interest payments are deducted.

### **EC – European Commission**

The European Commission is the executive of the European Union and promotes its general interest.

### **ECL – Expected credit losses**

Expected credit loss is the probability-weighted estimate of credit losses (i.e., the present value of all cash shortfalls) over the expected life of a Financial Instrument.

### **EIR method – Effective interest rate**

The effective interest rate is the interest rate on a loan or financial product restated from the nominal interest rate and expressed as the equivalent interest rate if compound interest was payable annually in arrears.

### **ENTSO-E – European Network of Transmission System Operators for Electricity**

ENTSO-E is the organisation of transmission system operators at a European level, representing 41 TSOs from 34 countries. Its mission is to promote important aspects of energy policy, especially integrating renewable energy and the completion of an internal energy market.

### **EU – European Union**

The European Union (EU) is a political-economic union of 27 member states countries that are located in Europe.

### **FTE – Full-time equivalent**

Full-time equivalent is a unit that measures work by converting work load hours into the number of people required to complete that task.

### **Gasunie – N.V. Nederlandse Gasunie**

Gasunie is a European gas infrastructure company that transports natural gas and green gas in the Netherlands and the northern part of Germany. Gasunie is participating in the development of the North Sea Wind Power Hub.

### **GW – Gigawatt**

A unit of power equal to one billion watts.

### **IAS - International Accounting Standards**

International Accounting Standards (IAS) are older accounting standards issued by the International Accounting Standards Board (IASB), an independent international standard-setting body based in London. The IAS were replaced in 2001 by International Financial Reporting Standards (IFRS).

### **IFRIC - International Financial Reporting Interpretations Committee**

IFRIC Interpretations are developed by the IFRS Interpretations Committee (previously the International Financial Reporting Interpretations Committee, IFRIC) and are issued after approval by the International Accounting Standards Board (IASB).

### **IFRS – International Financial Reporting Standards**

Internationally prescribed and recognised reporting guidelines developed from 2001.

### **kV – kilovolt**

A unit of electric voltage equal to 1,000 volts.

### **LEAN**

The core idea of LEAN is to maximise customer value while minimising waste. Simply, LEAN means creating more value for customers with fewer resources. The principles of LEAN were developed by the Japanese car manufactory Toyota.

### **LoR – Letter of Representation**

A Letter of Representation is signed by the management of TenneT and/or performance unit to attest to the accuracy of the financial statements.

### **MW – Megawatt**

A unit of power equal to one million watts.

### **NGO - Non-Governmental Organisation**

A non-governmental organisation is a voluntary citizens' group that is neither a government initiative nor a conventional for-profit business.

### **NorNed**

NorNed is a 580-kilometre long high-voltage direct current submarine power cable between Fedra in Norway and the seaport of Eemshaven in the Netherlands, which interconnects both countries' electrical grids.

### **NWE – North West Europe**

A region in Europe that includes Netherlands, Germany, Belgium, Denmark, United Kingdom, France, Norway, Sweden, Finland and Luxembourg.

### **OCI - Other Comprehensive Income**

Other comprehensive income comprises items of income and expense (including reclassification adjustments) that are not recognised in profit or loss as required or permitted by other IFRSs.

### **Opex – Operational expenditure**

Operating expenditure (opex) is the expense that a company incurs as a result of its normal business operations.

### **OWF – Offshore wind farm operators**

Offshore wind farms are constructed in bodies of water to generate electricity from wind.

### **Prosumers**

Energy consumers simultaneously acting as producers.

### **RES – Renewable Energy Sources**

All sources of renewable energy including sunlight, wind, tides, waves, biomass and geothermal heat.

### **SIC- Standing Interpretations Committee**

SIC Interpretations were previously issued by the Standard Interpretations Committee (SIC), and were subsequently endorsed by the International Accounting Standards Board (IASB). The IFRS Interpretations Committee has reissued Interpretations in this series if it considers it necessary.

### **TSO – Transmission system operator**

A transmission system operator transports electricity on a national or regional level from producers to distributors. A TSO is responsible for providing (1) power transmission services, by constructing and maintaining a robust high-voltage grid, (2) system services, by maintaining the balance between supply and demand of electricity 24 hours a day, and seven days a week and (3) facilitating a smoothly functioning, liquid and stable electricity market.

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## Disclaimer

'We', 'TenneT', 'TenneT TSO', 'the company' or similar expressions are used in this report as a synonym for TenneT TSO B.V. and its subsidiaries.

Parts of this report contain forward-looking information. These parts may include unqualified statements on future operating results, government measures, the impact of other regulatory measures on the activities of TenneT as a whole, TenneT's shares and those of its subsidiaries and joint-ventures in existing and new markets, industrial and macro-economic trends and TenneT's performance in these. Such statements are preceded or followed by or contain words such as 'believes', 'expects', 'anticipates' or similar expressions. These forward-looking statements are based on current assumptions concerning future activities and are subject to known and unknown factors, and other uncertainties, many of which are beyond TenneT's control, so that future actual results may differ significantly from these statements.

All financial information in this annual report is reported in millions of euro, unless stated otherwise. As a result, small rounding differences may occur.