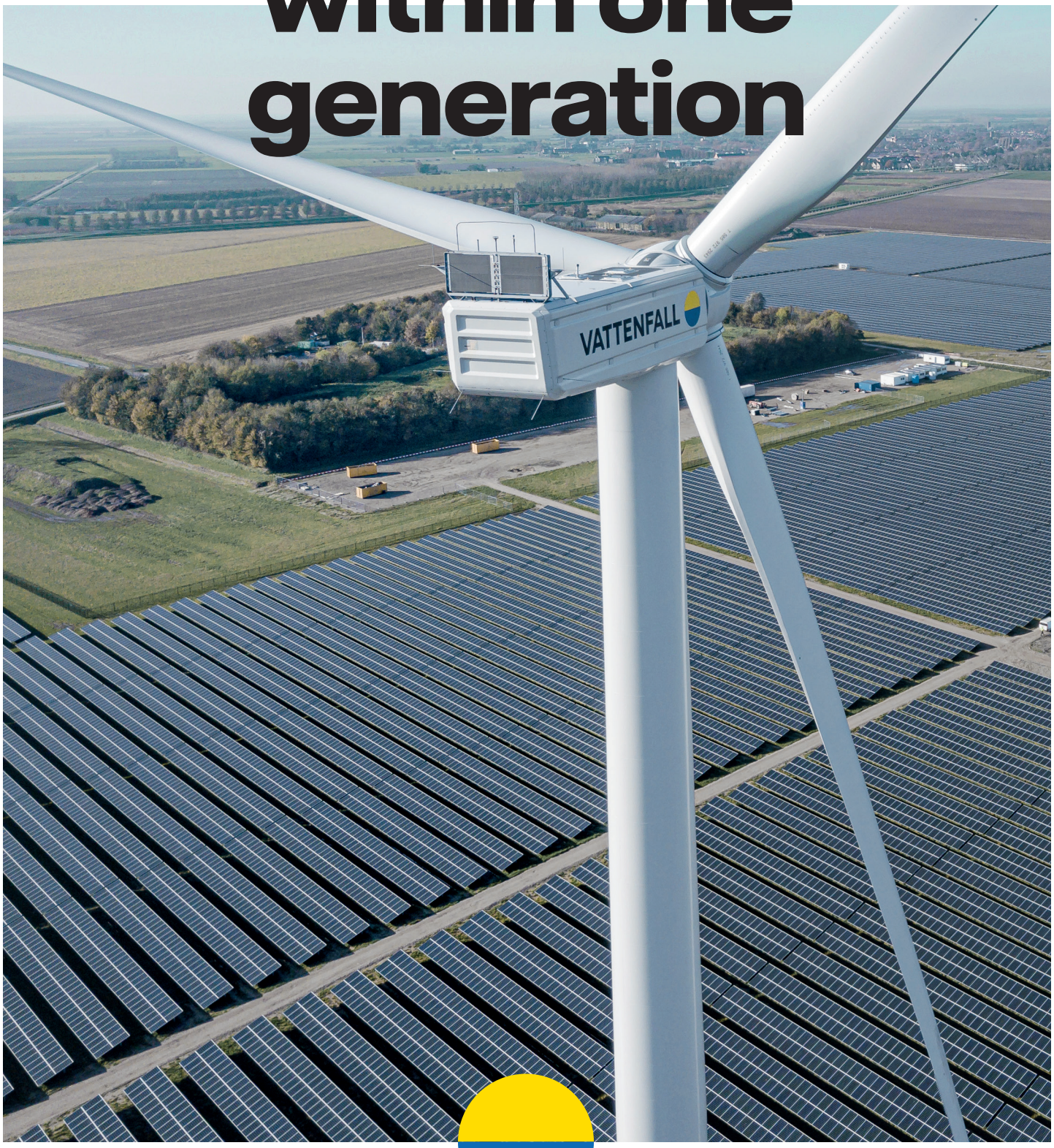
Vattenfall N.V. Annual Report 2021

# Fossil-free living within one generation




VATTENFALL

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# Report of the Management Board

## About Vattenfall NV

Vattenfall AB is one of Europe's largest producers and retailers of electricity and heat. Vattenfall's main markets are Sweden, Germany, the Netherlands, Denmark, and the UK. The Group has approximately 20,000 employees. The Parent Company, Vattenfall AB, is 100% owned by the Swedish state, and its headquarters are in Solna, Sweden. Vattenfall Group is organised in six cross-border Business Areas: Heat, Wind, Customers & Solutions, Generation, Markets and Distribution. In the Netherlands Vattenfall is mainly active in the Business Areas: Heat, Wind and Customers & Solutions.

Vattenfall's operations in the Netherlands are carried out by Vattenfall NV and its subsidiaries. Vattenfall NV also operates one gas storage facility located in Germany. Vattenfall NV produces and supplies electricity, gas, heat and cooling, offering its customers a wide range of energy-saving products and services. Vattenfall NV has approximately 3,600 employees (FTEs) and more than 2 million customers in the Netherlands. With net sales reaching over EUR 3.3 billion in 2021, Vattenfall NV holds a top-three position in the Dutch energy market. The activities relating to market access, trading and power plant optimisation are centralised in one central Continental hub in Hamburg. The activities that serve and support Vattenfall NV's power plants and gas portfolio optimisation are also handled in Hamburg but are executed on behalf of Vattenfall NV. In this Annual Report Vattenfall NV is mentioned specifically for all items applicable for the Netherlands. Vattenfall AB or Vattenfall is mentioned when the activities are presented from a Vattenfall Group perspective.

Vattenfall AB has committed itself to the Swedish Corporate Governance Code (SCGC). Within the Vattenfall Group focus on the SCGC is therefore emphasised. More information about Vattenfall can be found in the 2021 Annual and sustainability report of Vattenfall AB and can be found at www.vattenfall.com. As part of Vattenfall, Vattenfall NV's financial and sustainability results are included in this Vattenfall report. More detailed information about Vattenfall's work with sustainability is also available at https://group.vattenfall.com/who-we-are/sustainability.

## In Focus

**To reach our goal – a fossil free tomorrow - we must think beyond convention today. Beyond how we have always done things. Beyond what is expected of us. Beyond what we are told is possible. That is the mindset that drives everything we do. That is why we are working with partners from beyond our own industry. To roll out charging infrastructure for electric vehicles. To integrate excess heat into our district heating grid. To build one of the world's largest offshore wind farms. By thinking beyond convention, we can reinvent products and services, disrupt entire industries and challenge the norms that make society reliant on fossil fuels. Only then can we reach our goal of fossil free living within one generation.**

2021 was a momentous year for climate change and large international organisations pushing hard for action. Decarbonisation is the right thing to do, not only from a societal perspective, but also from a business perspective. Vattenfall increased the ambitions towards 2030 by aligning with the 1.5°C trajectory of the Science based Targets initiative[1] and set a new target to be Net Zero by 2040. Vattenfall NV contributes to this ambition.

### Starting in-house

First and foremost, we must decarbonize our own operations. We have closed our Hemweg coal-fired plant in Amsterdam in 2019. Phasing out fossil fuels is critical, but phasing in renewable electricity production from fossil free sources like wind and solar is equally important to ensure that demand can be met.

Looking forward, the phase out of fossil fuels will continue to be our priority. We continue to work with local stakeholders on mutually agreeable solutions to accelerate our phase out of natural gas. All options are being investigated, including power-to-heat, integration of waste heat and heat pumps and biomass. We are continuously exploring opportunities to integrate excess industrial heat into our district heating networks. For example, we collaborate with the owners of new data centres to locate them near our district heating assets to use the heat they produce in our networks to heat local homes and businesses. Complementing our decarbonisation initiatives, we strive to increase our build-out of wind and solar. Vattenfall has the intension to commission additional capacity in Onshore and Offshore Wind and Solar of over 16 GW by 2030. Vattenfall NV contributes by investing in multiple projects. Our 1.5 GW project Hollandse Kust Zuid is a good example of this expansion. It will be a subsidy free offshore windfarm when it is expected to be commissioned in 2023-2024.

Our decarbonisation path consists of a series of major projects, some of which are interlinked, and all of which have lead times of between five and ten years. We must take decisions today that relate to changes to be made in the late 2020s, for example. Regulatory uncertainty, market uncertainty and the future availability of resources must be considered. The role of natural gas in electricity and

heating in 2030 and beyond is a prime example of this uncertainty. Vattenfall continuously looks for innovative ways to decarbonize the operations and structured the decarbonisation roadmap to provide the flexibility to profitable achieve net zero in 2040, regardless of the conditions which eventually occur. Vattenfall NV contributes to this ambition. Scaling up investments in renewable energy sources will bring about its own set of challenges, also in the Netherlands. Furthermore, ensuring that materials are responsibly sourced is another challenge, as production of certain products like solar panels tends to flow through countries with weaker human rights protections. Skilled workers will be key, and throughout Vattenfall we must invest in employee development to ensure we have the competence needed for the transition, while also securing that Vattenfall is attractive to external talents we may need to recruit. We need to be cost conscious and we need to stick to our budgets and deadlines while ensuring quality and sustainability, and our employees will be fundamental in this.

### Supporting customers to decarbonise

Emissions from our customers are a big part of Vattenfall's total emissions and therefore also an important priority. Vattenfall believes that being the decarbonisation partner of choice for both B2C and B2B customers is the best way to build a profitable and sustainable business going forward. To become a partner of choice, we will offer our customers innovative products and services and accompany them on their own journeys towards fossil-free living. We are already underway as we are expanding our biogas offering in the Netherlands via powerpeers and DELTA Energie.

Similarly, we have led the research and development of a new type of heat pump in the Netherlands, which will be suitable for a broader range of customers. We will continue to empower all our customers to use their energy efficiently, offering insight on their consumption and advice to reduce their $CO_2$ footprint. We will expand our flexibility services, including batteries, market access, demand-response, or individually tailored solutions, to reduce the energy costs. We will complement this with services further enabling our customers to integrate decentralised, fossil-free electricity, for example from solar panels. As with decarbonising our own operations, we recognise that decarbonizing with our customers will be challenging, and the road ahead has many uncertainties. Regulatory and incentive schemes must be adapted to the urgency of the climate challenge to ensure that more sustainable alternatives are attractive and affordable; technologies like heat pumps must continue to improve and markets for non-fossil gas alternatives must continue to develop. Nevertheless, we believe our strategy and expertise give us the flexibility to react to market developments as they come, while ensuring that we are the best-in-class partner to aid our customers in their decarbonisation journeys.

### Partnership key to long-term success

Though Vattenfall's decarbonisation journey started years ago we are still in the early stages of the process. As we face the challenges that come with achieving our own decarbonisation goals, as well as supporting our customers and partners to achieve theirs, we will continue to learn and to share these learnings to maximise the impact we can have. Knowledge exchange and partnering is key to decarbonise society as a whole. Together, we can do more.

## Important events in 2021

### National covenant on early signalling of debts

On January 1st, the national covenant on early signalling of debts entered into force. This covenant is developed by the Dutch Association for People's Credit (NVVK), together with Vattenfall NV and other energy suppliers, drinking water companies, housing corporations and health insurers, supported by the Association of Dutch Municipalities (VNG). The covenant is the basis for agreements with municipalities, to cooperate on early signalling of people with financial difficulties. End of 2021, Vattenfall NV signed agreements with over 300 municipalities.

### Expanding the E-mobility charging stations

The electrification of transport is another main area where we will support our customers to become fossil free. We continue to extend our e-mobility services and our charging network in The Netherlands, capturing benefits of scale with the Group and enhancing value for our customers and key partners. The role out of charging stations in the provinces Noord-Brabant and Limburg will continue in 2022. Over the coming ten years, the e-mobility industry will shift from building charging points to optimising the use of those charging points. Together with the City of Amsterdam and the construction company Heijmans, Vattenfall NV has installed a battery that can charge up to 16 electric vehicles simultaneously and enable faster charging during peak demand hours.

### Amsterdam South Connection in operation

In March 2021, the Amsterdam South Connection delivered the first heat to the southeast and northwest district heating networks in Amsterdam. This is an important part of the work to enable the connection of up to 290,000 homes to the district heating network by 2040. For this purpose, we installed an auxiliary heat plant which was put in use on May 26th, 2021. Earlier in 2021 Vattenfall decided to invest in an additional growth project in the city, the new Hakfort heat transfer station. This will allow for the connection of 20,000 homes to the district heating network, which is planned to be completed at the end of 2022.

### Construction wind farm Windplan Blauw

In September 2021, Vattenfall as one of the initiators of Windplan Blauw, has given the green light for the

construction of the outer-dike part of the wind farm on the IJsselmeer. The 28 wind turbines of our current Irene Vorrink wind farm will be replaced by 24 modern, powerful turbines. It is expected that the Windplan Blauw wind farm will be commissioned in the last quarter of 2023.

### Opening solar meadow Kooypunt

On November 8th, 2021, solar park Kooypunt was opened. More than 30,000 solar panels have been placed on the nearly 15 hectares of land between the Mastenmakersweg, the Rijksweg (N9) and the railway. The solar meadow has an installed capacity of 12.5 MW and produces approximately 13,000 MWh of electricity annually, which corresponds to the energy consumption of approximately 3,500 Dutch households.

### Subsidy free solar park Trekweg A6 Almere

In November 2021 the permit for solar park Trekweg was granted. We are now starting the development of our first subsidy-free solar park in the Netherlands. In total, we expect to be able to install more than 25,000 solar panels. Together, they have a capacity of 16.8 MW and are expected to supply 18.3 GWh of green electricity annually.

### Decision to construct solar park Symbizon and wind farm Hanze

In December 2021 Vattenfall NV together with several partners decided to start construction of the Symbizon solar park in Almere in May 2022. The combination of solar panels and strip cultivation will be tested in that park. The aim of the so-called Symbizon project is to show that arable farming and solar panels can go well together. In the same month decision was taken to construct Wind farm Hanze. The wind farm will consist of 15 wind turbines and will have a total installed capacity of 90 megawatts. The wind farm will be fully operational in 2023. When completed, the farm will reduce $CO_2$ emissions by approximately 350,000 tons per year. By working together with Cargill and Wind farm Hanze, the $CO_2$ emissions of the Dutch industrial sector potentially decreases. In addition, we support the construction of renewable capacity, which further increases the share of green electricity in the Dutch energy mix. Collaborations like this are potentially accelerating the energy transition and bringing our mission to enable a fossil-free life closer.

### Continuing build of the combined Wind, Solar and Battery Park at Haringvliet

The first part of hybrid renewable energy park Haringvliet has already been commissioned in 2020 and 2021. We are continuing the build of this combined wind, solar and battery park in 2022. This hybrid park will play an important part in Vattenfall's ambition to enable fossil-free living within one generation. Wind, solar and batteries have many synergies if we develop them together, sharing infrastructure and having a stable and reliable production throughout the year.

### Sale of windfarms

The sale of windfarms gives us more financial room to start up new projects, allowing us to further accelerate the energy transition and realise our ambitions. This is what we call our 'asset owner flexibility' strategy (more information in chapter A sustainable Investment plan). On 29th of March 2021, Vattenfall NV sold the shares (50%) in NoordzeeWind CV to Shell WindEnergy Netherlands BV (see Note 3 on page 30). The consideration paid amounted EUR 12.5 million which has resulted in a capital loss of approximately EUR 10 million (see Note 15 on page 42). In May 2021 we reached agreement of the sale of wind farm Jaap Rodenburg of in total 38 MW. The official transaction date will be in March 2022.

At the end of June, Vattenfall signed an agreement with BASF on the sale of 49.5% of Vattenfall's Hollandse Kust Zuid offshore wind farm in the Netherlands. The purchase price paid by BASF amounts to EUR 0.3 billion, based on the achieved status of the project, bringing BASF's total commitment to approximately EUR 1.6 billion, including the company's contribution to fund the wind farm construction. The deal was closed in September 2021 and the sale of the minority share to BASF has resulted in a surplus value of EUR 250 million, which has been added to retained earnings. This surplus value is therewith represented as a direct change in equity. The sale of the minority share to BASF has resulted in an initial non-controlling interest of EUR 147 million and a subsequent contribution of the new partner in the project of EUR 163 million (see Note 30 on page 52). Construction of the wind farm has been started, and once fully operational, which is expected in 2023-2024, this will be an offshore wind farm with an installed capacity of 1.5 GW. In December, BASF re-sold 25.2% of HKZ to the insurance company Allianz.

In December 2021 we sold princess Ariane Wind farm (Windpark Wieringermeer Extension B.V.) to AIR BidCo B.V. for an amount of EUR 324 million. This is an Develop-to-sell project were assets under construction are accounted for as inventory (see Note 4 on page 31). The sales proceeds of EUR 303 million are recognised as revenue (IFRS 15). The sales prices of EUR 324 million has not fully been recognised due to two activities that needs to be conducted by Vattenfall NV as a service provider in 2022: the Taking-over-certificate (TOC) needs to be obtained for the entire Windfarm and the 32nd wind turbine generator still needs to be constructed and granted with a Taking-over-certificate. Revenues for these two services will be reported in 2022 when the services are performed.

## Markets and regulations

2021 has been the year of EU regulation. In July, the European Climate Law was adopted with a binding target of achieving climate neutrality by 2050. The development of the details in the EU taxonomy as well as sharp increases in electricity prices in the second half of the year, spurred a discussion on the future of the European energy mix.

## Turbulent year on the power markets

While parts of the economy suffered from Covid-19 restrictions in 2021 renewables such as wind and solar continued to grow rapidly for Vattenfall. In the Netherlands wind and solar production has increased as well due to commissioning of new assets. Clean energy technology is becoming a major area for investment. International collaboration and competition are further increasing. At the same time wholesale electricity prices reached new heights mainly driven by natural gas and coal prices. In parallel, price volatility was extremely high because of a tight supply and demand balance and the weather-dependent output of renewables production.

## Debate about electricity market design

A rise in gas and electricity prices led to a heated debate at the EU and in the Netherlands on how to limit the negative impact for customers and industry. Some countries including France introduced price caps for retail customers on gas and electricity bills. While the Dutch government did not intervene with additional regulation in order not to jeopardise the principles of the liberalized electricity and gas market design. Other measures such as electricity tax deductions and monetary support to consumers have been proposed to mitigate the high energy bills. The European Commission resisted pressure for adjustments referring national policymakers to tools such as tax deductions and subsidies. An alliance of EU member states outlined the need of reforms to decouple the price of electricity mainly from the cost of gas to prevent further market volatility.

## Steppingstones for new policy towards 2030

The lengthy formation process for the new government has created opportunities to present a series of roadmaps. Amongst others on green gas, electrification and hydrogen. While the new energy act and heat act continue to be in preparation. All in all laying steppingstones for the next governments to turn ambition into action.

## New Coalition Agreement presented

A new coalition agreement was presented on 15 December 2021. This had taken a record long time given elections were held on 17 March 2021. Mark Rutte will continue to be the Prime Minister in a coalition with the same political parties as had been governing the country since 2017: Liberal Conservatives (VVD), Liberal Democrats (D66), Christian Democrats (CDA) and the Christian Union (ChristenUnie). The Coalition Agreement's slogan is "Looking after each other and looking forward to the future". The current already very challenging target of 49% reduction of greenhouse gasses by 2030 will be increased in the Climate Act to at least 55% reduction, while striving to 60%. And intermediate reduction targets for 2035 (-70%) and 2040 (-80%) are set, all ultimately leading to a climate neutral economy in 2050. Climate and Energy is an important topic in the new coalition agreement. The goal is "a sustainably prosperous country for current and future generations (...)". For this purpose, many billions are set aside. This makes this Cabinet one of the biggest investor-cabinets in years. A new Climate & Transition fund for the next 10 years, holds 35 billion euros and is on top of the current subsidy scheme SDE++. This fund will focus on energy infrastructure (electricity, heat, hydrogen and $CO_2$), on green industrial policy and making the built environment and mobility more sustainable. A change in governance is a dedicated Minister for Climate and Energy. Regarding the energy mix the focus will stay on offshore wind, solar-on-roof, geo- and aqua thermal heat, green gas. The use of subsidised woody biomass will be phased out, taking cost-effectiveness into account. The government will take preparatory steps for the construction of two new nuclear power plants, current nuclear plant Borssele will be operational for a longer period (5 bln euro). 1 bln euro for decarbonisation of CCGT. Built environment to be decarbonized with a national insultation program and support for (hybrid) heat pumps as well as green gas obligations.

## Heat Act 2

The Ministry of Economic Affairs & Climate Policy is preparing a new law, the Collective Heat Supply Act (also known as 'Heat Act 2'). This law will replace the current Heat Act and aims to accelerate the growth and sustainability of heat networks in the Netherlands. It contains rules on, among other things, the market model, tariff regulation, sustainability and security of supply. Vattenfall is closely involved in the policy development discussions with the Ministry and other stakeholders. The Ministry aims to send the law proposal to the House of Representatives by the end of 2022.

## Efforts to further reduce $CO_2$ emissions and stay in line with Urgenda verdict

The government has taken measures to bring down $CO_2$ emissions. One additional coal plant is agreed to be closed. The remaining coal plants will also need to reduce their $CO_2$ emissions. From 1 January 2022 to 31 December 2024, coal-fired power stations in NL are legally forced during a calendar year (pro rata) not to emit more than 35% $CO_2$ while generating electricity by using coal than the total amount of Mton $CO_2$ that would have been emitted in a calendar year at full deployment of the installed capacity. This restriction is introduced to limit emissions annually from 2020 onwards to a maximum of 25% below the 1990 emission level.

## Decarbonisation Industry

Decarbonisation of industry has been fully in focus of the government. Support for CCS has been awarded to several initiatives and electrification as a key option for industry has gained interest and expectations. To support this, a hydrogen roadmap has been published. In addition, a national electrification roadmap was presented. This describes the (technical) potential for electrification in Dutch industry (30 to 80 TWh in 2030 and up to 80 to 130 TWh in 2050). To realise this potential, the roadmap indicates the needed actions: set

clear policy goals (including at least 30 TWh electrification in industry by 2030) and make the incentive framework suitable for industrial electrification; develop additional renewable production equal to growth of industrial (flexible) demand; accelerate the scaling up of the transport infrastructure (electricity and hydrogen).

### Offshore Wind and tendering HKW

Offshore wind is widely recognised as important lever to further decarbonize the economy and electrify industry. Common agreement was found that at least 10 GW of additional offshore wind would be needed by 2030 to enable industry to electrify. It was advised to double the 2030 offshore wind targets to over 20 GW in 2030.

Hollandse Kust West has been part of the earlier roadmap. The tender was published and is expected to be awarded in 2022. This new tender has two lots with a special focus: one lot focuses on ecological innovation, the other on system integration. The wind farm is expected to be operational in 2025-2026.

## A sustainable investment plan

Vattenfall AB's investment strategy reflects our 1.5-degree target[1] and our goal of fossil-free living within one generation. Substantial growth investments will be made in renewable production and developing, growing and decarbonising our district heating business. Total planned net investments of Vattenfall AB for 2022 and 2023 amount to SEK 55 billion (EUR 5.4 billion). Gross investments amount to SEK 77 billion (EUR 7.6 billion), where the difference is mainly attributable to partnering for Hollandse Kust Zuid and develop-to-sell assumptions for some of the onshore wind and solar projects. The investment strategy reflects Vattenfall's goal to enable fossil-free living within one generation. The following figures are all presented in net investments.

Around SEK 18 billion (EUR 1.8 billion) of the growth investments are planned for investments in the Netherlands. The plan includes expenditures for major offshore projects that are planned to be completed the coming years, like Hollandse Kust Zuid 1-4 (1,500 MW), and onshore wind projects like Windplan Blauw (77 MW) and A16 Klaverspoor (34 MW). In addition, development costs for potential wind power projects further ahead in the future like Hollandse Kust West are also included. Vattenfall NV is also investing in solar and battery projects and in large scale onshore wind projects as part of our 'asset owner flexibility' strategy. This 'asset owner flexibility' strategy implies that Vattenfall NV is developing and constructing wind farms that will be sold or (partly) divested after completion to free-up cash for the financing of new projects. The operational management of these projects can nevertheless stay within Vattenfall NV also due to partial sale of a project.

Other major growth areas include the development of district heating networks. It also includes projects in the Netherlands such as in Diemen, where we are developing the possibilities of a biomass fired heat-only boiler (100 MW heat) and installing a new e-boiler with 150 MW capacity at the site. We hope to take the final investment decision for Diemen before winter 2022 – currently stakeholders and Dutch politics are speaking out against biomass. Further growth activities include investments in e-mobility charging, new energy solutions, heat supply and decentralised heat solutions. This also includes investments of the Dutch service company Feenstra. Besides these growth activities, Vattenfall NV is planning significant investments in maintenance, modernisations and replacement of the existing assets.

These investments in property, plant and equipment at Vattenfall NV are as much as possible funded from operational earnings. Furthermore the (partial) sale of wind farms frees-up cash that is used for investments in new constructed wind farms or other investments in property, plant and equipment. Investment planning within Vattenfall AB is done centrally as well as securing financing for these investments for instance through looking for partnerships and issuing green bonds. Vattenfall AB will ensure that sufficient funds are available at Vattenfall NV through providing credit facilities or making capital contributions when necessary. For more information we would like to refer to the Vattenfall Annual and Sustainability Report 2021.

**Vattenfall's strategy drives our contribution to the UN Sustainable Development Goals**


Our strategy and our purpose reflect the UN's Agenda 2030, in particular the Sustainable Development Goals for Affordable and clean energy (#7), Industry, innovation and infrastructure (#9), Sustainable cities and communities (#11), Responsible consumption and production (#12), Climate action (#13), and Partnerships for the goals (#17).

[1] SBTi publicly discloses temperature alignment based on the ambition of a company's Scope 1 and 2 targets

# Operational performance

## Our operational results in 2021

EBITDA (earnings before interest, taxes, depreciation and amortisation) slightly decreased from EUR 767 million positive in 2020 to EUR 750 million positive in 2021. The growth in our Wind activities and divestment of wind parks have significantly contributed to the EBITDA. The volatile and high market prices have substantial impact on the figures, but the unrealised positive price development on our power and gas purchase contracts are completely offset by a provision for onerous contracts recognised for a portion of the fixed-price electricity and gas contracts concluded by our customers. This will now be explained in more detail:

An unrealised fair value gain on power, gas and oil forward contracts of EUR 1,986 million (2020: gain EUR 329 million) has been recognised in 2021. Fair value movements can be explained due to an overall long position in Dutch power and gas arising from sourcing for customers while spot prices have increased. Vattenfall NV does not apply hedge accounting or the 'own use exception' for these contracts. A large opposite effect is related to the recognised provision for onerous contracts. This provision relates to contingent losses from pending transactions from fixed contracts with customers. The recognition of the provision of EUR 2,199 million in 2021 (2020: EUR 0 million) is due to increased energy prices on the commodity markets in combination with the timing difference between the actual entering into new contracts with customers and the sourcing of electricity and gas. The fair value swings of hedged commodity items leads to results based on spot price movements whereas the settlement with the customers takes place upon delivery - usage of the electricity and gas. Due to surging prices for both gas and electricity during the last quarter of 2021 a portion of the fixed-price contracts have become onerous from the perspective of Vattenfall NV. Other effects due to price volatility are a positive hedge result for gas and $CO_2$ of EUR 209 million (2020: EUR 2 million loss) due to much higher prices for gas and $CO_2$. Positive revaluation of gas stock in the gas storages has a positive effect of EUR 219 million (2021: EUR 269 million vs 2020: EUR 50 million). Vattenfall NV applies hedge accounting only to a limited extend for powerplants (own-use exemption).

The EBIT decreased from EUR 558 million positive in 2020 to a EUR 537 million positive in 2021. The price volatility has however an impact on this decrease of EBIT as highlighted in the table below. Our business activities which are servicing our customers present a stable EBIT-contribution, while Wind activities are growing including the effect of sale of wind farms. The volatility of market prices has the largest impact on Markets.

The table shows the EBIT per segment for 2021 compared to 2020 and includes the impact of items affected by volatility of market prices:

| Amounts in EUR million, 1 January-31 December | 2021 | 2020 |
|---|---|---|
| Customers (Electricity, Gas & Heat), Heat Grids & Projects, Staff | **137** | **127** |
| Production (Wind and Heat Condensing Generation) | 197 | 78 |
| Markets | 203 | 354 |
| **Operating profit (EBIT)** | **537** | **558** |
| Items affected by volatility of market prices | | |
| Unrealized Fair value gain power and gas contracts | 1,986 | 329 |
| Provision onerous fixed-price customer contracts | -2,199 | – |
| Hedge result gas and $CO_2$ | 209 | -2 |
| Revaluation of gas stock | 269 | 50 |
| Total Items affected by volatility of market prices | 265 | 377 |
| **Operating profit (EBIT) excluding items affected by volatility of market prices** | **272** | **181** |

### Customers & Solutions

Vattenfall's Customers & Solutions business provides electricity, gas and energy solutions to retail and business customers, with 4.8 million contracts in the Netherlands. 28,700 electric vehicle charging points are connected to the InCharge platform of Vattenfall AB. Vattenfall NV is one of the market leaders in the retail and business segments in the Netherlands.

The Customers & Solutions business aims to be the transition partner for our customers In leading customers through the transition, we provide a wide range of smart, data-driven and decentralised sustainable energy solutions and services to retail and business customers. We focus on decentralised generation (in particular solar (PV) and heat pumps) through our subsidiary Feenstra. We leverage Vattenfall's fossil-free generation to offer a diversified commodity portfolio that covers an increasing share of fossil-free electricity and its connected Guarantees of Origin. To stay competitive, our focus is on growing our customer base while reducing the cost to serve. Vattenfall strives to optimize the customer experience by accelerating digitalization and offering bundled and integrated solutions.

Customers are increasingly demanding sustainable solutions. We aim to offer 100% Dutch Guarantees of Origin (GoO)-certified electricity to B2C customers in the Netherlands within a few years. We also offer biogas and have developed innovative and affordable heating solutions to replace gas boilers in the country. A new high-temperature heat pump system was launched in 2021. This can replace gas-fired boilers without large direct investments in changing the heat delivery system (radiators) and large-scale insulation, which reduces switching costs. In addition to this, we are aiming to be a leading operator of e-mobility charging points in northwest Europe to support the electrification of transport.

Our retail customer base stabilized during the year in the Netherlands, including powerpeers and the customers from the Dutch supplier DELTA Energie. This stabilization neutralizes the consequences of Covid-19 measures impacting our acquisition channel Door-to-Door and the halt on acquisition in the last quarter of 2021, due to the extreme volatile and high market prices. DELTA Energie supplies renewable electricity and gas to private customers and small and medium-sized companies, primarily in Zeeland. DELTA Energie has approximately 110 employees and 0.34 million customer contracts.

We improved our absolute Net Promoter Score (NPS) rolling 3 months average for the Vattenfall NV consumer market in the Netherlands to +21 (excluding powerpeers and DELTA Energie). An improvement of 14 points compared to 2020. This is a great score in an "energy crisis period" with very high (gas) prices in the market and smaller energy suppliers going bankrupt. Our existing customers are reassured in their choice for Vattenfall in these uncertain times. Furthermore, the high NPS score is a result of a high customer service standard and the recognizable purpose (fossil free).

Our churn moves clearly below the market churn due to our strong attention, reward and appreciation for our loyal customer base. This is a good result compared to the market churn development (18.5%). The Dutch government has decided to set up a new fund (EUR 200 million) for compensating the energy tariffs for vulnerable customers. Vattenfall NV participated actively in a lobby towards this fund and will support its deployment through customer communication.

In the second half of 2021, natural gas and electricity prices have soared, posing financial difficulties for customers as well as counterparts across the industry. At Vattenfall NV, we take our responsibility when it comes to the affordability of energy. We do this in our own billing process by offering customers various solutions, such as choosing your own payment date and payment arrangements, to prevent increasing debts. In addition to providing solution through our own billing process, we work together with partners. In January 2021, the covenant on early signalling of debts entered into force, a cooperation between energy companies, housing corporations, water suppliers and municipalities. End of 2021, Vattenfall NV signed contracts with over 300 municipalities. In addition, we launched a portal, as part of 'Vattenfall Verlicht', a solution for customers under judicial administration, through which administrators can check if the monthly payment of their clients is still in line with monthly energy use, to prevent additional payments. We also offer these customers a free energy scan to reduce their energy consumption (and thus lowering their energy bill). Another example is our cooperation with Geldfit, an initiative to support, advice and connect consumers to financial support.

Looking at our e-mobility business in the Netherlands we continued with setting up partnerships and a number of new initiatives. We entered partnerships with the automotive distributor Louwman Group and mobility partner WEVI. In the Netherlands, we equipped 80 public charging stations with a new flexible charging software that controls the charging speed for electric vehicles. This will create room in the grid to add more renewable electricity in the future. 2021 had a lower sales level of charging solutions. There was significant pressure on charging due to Covid-19 and less new invested charging points. Lower volumes were partly offset by positive margin effects as well as the higher benefit from Renewable Fuel Units-trading. The investments in charging stations at our location partner McDonalds is ongoing: in 2021 the 100th Fast charging station was realised. The roll out of charging stations in the public segment is growing as well with provinces Noord-Brabant and Limburg as examples where we roll out charging stations despite pressured installation capacity. The outlook for post Covid-19 period is very positive and we expect that sales volumes will go up again. Furthermore, we are involved in development of smart software that operates the charging stations for electric cars in such a way that peak and off-peak in power supply are used properly automatically. Vattenfall InCharge now operates more than 16,000 charging points, making the transition to sustainable, electrified transport easier. In the Netherlands, Vattenfall operates more than 20% of the public charging stations and offers its customers access to around 95% of all charging stations in the country through roaming agreements. In addition, together with our partners we are building InCharge to become one of the biggest charging networks in Northern Europe.

Total volumes of sold electricity and gas in the consumer market (Vattenfall Sales Nederland consumers, DELTA Energie, powerpeers) and business market increased by 3.3% and 3.7%, respectively, compared to 2020. Net sales increased mainly due to substantial higher gas prices in the Netherlands and due to increased gas volumes related to cold weather in 2021 compared to 2020. For electricity also higher prices and increased demand in the business market have contributed to increased net sales. Net sales of gas and electricity have been catching up again in 2021, while 2020 was affected more by the Covid-19 pandemic. The Declaration of Compliance with the Code of Conduct for Suppliers and Metering companies operating under their responsibility is included in the section Other Information.

**Planned activities**

- Offer fossil-free electricity and further develop portfolio of energy solutions to enable the energy transition in our continental markets, including biogas, heat pumps and other energy solutions
- Expand flexibility offering, including storage solutions, to give customers control over how and when to consume energy, reduce costs and integrate decentralised energy
- Within Vattenfall Group expand to operate over 0.5 million charging points in Europe by 2030
- Continue our support for customers who have difficulties paying their energy bills

## Wind

Accelerated renewables growth is key to achieving a sustainable energy system and unlocking the climate benefits of widespread electrification of society. Vattenfall is one of the market leaders within wind power in north-western Europe, especially in the UK and the Netherlands. We own a portfolio of wind turbines with a total installed capacity of approximately 0.44 GW (2020: 0.7 GW) in the Netherlands. Next to wind power, we continue our focus on solar power (PV) technology and battery storage. We now operate/own 70 MW (2020: 75 MW) of solar power comprising decentralised and large-scale projects and have installed 15 MW (2020: 15 MW) of battery capacity in the Netherlands. The decrease in operating capacity is the result of divestments as part of the 'asset owner flexibility' strategy. Examples of these divestments are NoordzeeWind (108 MW Offshore wind farm of which Vattenfall owned 50%), princess Ariane Wind Park (Wieringermeer Extension: 118 MW Onshore wind farm), Coevorden (7 MW solar farm). This 'asset owner flexibility' strategy implies that Vattenfall NV is developing and constructing wind farms that will be sold or (partly) divested after completion to free-up cash for the financing of new projects. The operational management of these projects can nevertheless stay within Vattenfall NV also due to partial sale of a project.

The steep cost decline and technological advancements over the past years have made new wind and solar power the most sustainable and economic sources of electricity. In combination with the growing pressure to decarbonise, often through electrification, this results in strong, double-digit growth for both wind and solar power in Europe towards and beyond 2030. This has led to changing market conditions in all our markets: several new players, such as oil and gas majors, have entered the industry which has intensified competition. Also, an increasing share of new wind and solar projects will be realised without subsidies, requiring developers to rethink project business cases.

Our ambition is to be a leader in the energy transition by being active throughout the value chain, meaning that we will develop, construct and operate on- and offshore wind as well as large-scale solar PV and battery storage. We will actively work with both partners and investors to realise our growth ambitions. To continue building on our position in an increasingly competitive market, we aim to strengthen our project pipeline further by own development, bidding for, or acquiring additional attractive projects in wind and solar. One part in reducing costs is to continue to innovate in operations and maintenance and keep focus on digitalization of our entire value chain to improve performance. Another part is to sustainably integrate renewable production assets into the power system by combining generation technologies and integrating storage solutions. This will potentially enable us to deliver new wind and solar projects without subsidies. In addition, we will continue to create partnerships with off takers so that we can directly link the generation of fossil-free electricity (contractually) to power demand. We continue to focus on reducing greenhouse gas (GHG) emissions as well as focusing on circularity, community engagement, sustainable procurement and biodiversity to deliver on our growth ambitions. In addition, we consider it important to give advice to authorities on regulatory changes to ensure environmental opportunities in a risk- and cost-conscious manner. In these efforts we work together with authorities, academia and NGOs.

At the end of June, Vattenfall signed an agreement with BASF on the sale of 49.5% of Vattenfall's Hollandse Kust Zuid (HKZ) offshore wind farm of 1,500 MW, which corresponds to the annual electricity consumption of more than 2 million Dutch households. The deal was closed in September 2021 and construction of the wind farm has started. Once operational in 2023-2024 it will be one of the world's largest offshore wind farms. This wind warm will be realised completely subsidy free.

In the Netherlands, several large and complex onshore wind projects are nearing completion, including A16 wind farm (34 MW), Nieuwe Hemweg (13 MW), Jaap Rodenburg 2 (38 MW) and Ny Hiddum Houw (19 MW). In September 2021, Vattenfall took the final investment decision to construct Windplan Blauw nearshore project in the Netherlands (130 MW, of which 77 MW will be owned by Vattenfall). Decisions for 2 new Onshore projects (with a combined capacity of more than 100 MW) are pending in 2022. Within Solar and Batteries, the solar farm Kooypunt (13 MW) and Haringvliet (30 MW) have been constructed in 2021 and this will continue for Haringvliet in 2022. Final investment decision for Echteld (12 MW solar), Goirle (14 MW solar), Sas van Gent (16.5 MW solar) and princess Alexia Wind farm (14 MW battery) are planned for 2022. In addition, the innovative project Symbizion (0.7 MW solar) is planned for completion in 2022.

Vattenfall NV's renewables production was 1.3 TWh in 2021. On top of own renewables production, Vattenfall NV is also optimising wind- and solar parks for third party developers, resulting from 400 GWh renewable energy production under management in 2021 to a forecasted 3 TWh in 2025.

### Planned activities

- Partner with industry to support decarbonisation of sectors beyond our own
- Work with deep integration of hydrogen production within offshore wind
- Expand granular knowledge on our emissions to identify reduction potential and understand cost impact
- Sustainability award criteria are to be applied with a weighting in a certain share of large procurement tenders
- Increase circularity in our operations. One example is blade waste recycling targets: landfill ban today, 50% recycling by 2025, 100% by 2030
- Increase knowledge on environmental impacts of our activities and work on mitigating actions, biodiversity enhancement measures and co-use

## Heat

Vattenfall Group is one of Europe's largest producers and distributors of district heating to growing metropolitan areas in the north-western part of the region, including Berlin, Amsterdam and Uppsala. The Heat operating segment comprises Vattenfall's heating and condensing businesses, including waste-to-energy plants. District heating supply is mainly based on the operation of large, combined heat and power plants (CHPs). The segment also includes Vattenfall's condensing power plants, consisting mainly of gas-fired power plants in the Netherlands. The Heat business also offers an array of decentralized energy solutions, including mini-CHPs, heat pumps, boilers, storage options and solar panel installations. With significant growth potential in Germany, the Netherlands and the UK, we continue to expand the number of customers in B2B as well as among large private and publicly owned property companies. In Sweden, growth prospects are more limited due to market saturation thus, focus is on continuing to lower the $CO_2$ footprint and enabling decentralised solutions.

Buildings account for a significant share of global emissions and decarbonisation of heating is key for reaching many cities and countries' climate neutrality goals. Thus, customers and society at large expect heat providers to be a major contributor in decarbonising urban areas. In this market environment, low-carbon heating businesses attract high valuations due to being considered both low risk and potentially high growth. Market actors increasingly use fossil free sources, such as geo- and aqua-thermal energy, biomass, biogas and fossil-free hydrogen. There are also increasing efforts to use excess heat from energy-intensive industries as well as increasing the focus on providing low-carbon heat to existing buildings. Notwithstanding these developments, heat is still a locally focused business, with little impact from nationally spread competition.

Heat is at the epicentre of Vattenfall's decarbonisation journey. And the focus of our decarbonisation efforts is on replacing fossil fuels with fossil-free alternatives, mostly in our Berlin and Amsterdam heat networks. We are phasing out hard coal by 2030. In the Netherlands Vattenfall NV does not own any operational coal-fired plants. Furthermore, we are carefully considering our technology options with a strong focus on minimizing the exposure to fossil gas – where ensuring that any required gas assets are fit to be powered by fossil-free hydrogen or biogas when these renewable fuels become feasible. Our country-specific $CO_2$ reduction roadmaps are based on a broad mix of sustainable technologies, including geo- and aqua-thermal heat sources, heat pumps, e-boilers, (seasonal) storage options, and hydrogen. We are also partnering with major industry players to integrate third party excess heat from industries or data centres. In the Netherlands we are investigating the feasibility of lowering network temperature. This would minimize heat losses and enable the integration of more renewable third-party heat sources as most excess heat is supplied with lower temperature than conventional power plants. We aim to grow our customer base by connecting more (new and existing) buildings to our heat grids, by developing new heat grids and by implementing our smart hybrid and decentralized heating and cooling solutions. To do this, we work on further digitalizing our core processes and developing digitally enabled propositions.

The total produced electricity amounts to 11.6 TWh in 2021 (2020: 14.7) by our gas-fired plants in the Netherlands. The decrease in production was mainly related to lower (off-peak) spreads on our gas-fired plants despite higher availability. The number of heating customers slightly increased to 126 thousand in 2021 (2020: 123 thousand). Total sold heat amounted to 6.9 PJ in 2021 (2020: 6.0) and total realised $CO_2$ reduction in 2021, compared to 2020, was around 301,000 ton $CO_2$ (2020: 233,000).

In the Netherlands, Vattenfall was granted a permit and subsidy to build a power-to-heat (electric) boiler at the Diemen CHP plant in Amsterdam. The power-to-heat boiler is expected to be the largest in Europe once commissioned and will run exclusively on fossil free electricity. The coal-fired power plant Hemweg 8 in Amsterdam that was taken out of operation in 2019 is now being prepared for demolition. The site will redevelop into a fossil-free energy hub for the production and storage of fossil-free heat, power and hydrogen. Additionally, the Amsterdam South Connection, which couples the city's south-eastern and north-western district heating network, started operations in 2021. The system includes an auxiliary heating plant and heat buffer and enables the integration and supply of more sustainable and renewable heat into the entire Amsterdam district heating network.

Vattenfall NV is working to increase sustainable heat in different district heating networks. For our heat grid in Amsterdam, Diemen and Almere we are in close dialogue with local and national government and stakeholders regarding a potential biomass-fired heat-only boiler. The societal acceptance will be considered in the final investment decision. Final investment decision is not expected before Q4 2022. Additionally, the generation capacity will be expanded with aforementioned power-to-heat boiler. The Annual Statement 2021 in the framework of the Heat Act is presented in the section Other Information. An overview of energy sources of the heating networks and the environmental impact is presented in the district heating label (Other information) and is also published on www.vattenfall.nl.

### Planned activities

- Involvement in the feasibility studies for geothermal heat
- Utilize excess heat from the cooling water of existing and future data centres in Amsterdam
- Enable more customers to sell excess heat to the district heating network

## Fuel Mix supply

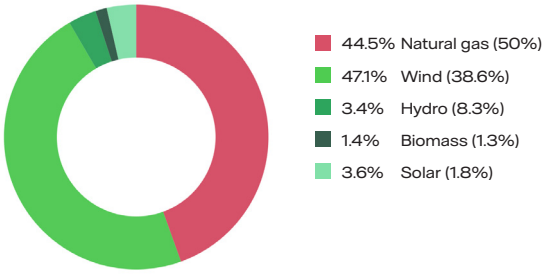
Electricity suppliers in the Netherlands are required by law to publish the fuel supply mix of the electricity they supply to customers. Our supply mix is shown in the figures below, which illustrates that the share of renewable electricity in 2021 was

55.5%. The share of renewable electricity represents the number of Guarantees of Origin used for green electricity supplied to end-customers.

From January 2020 onwards electricity suppliers must disclose their complete supply mix ("full disclosure"), which means that they must not only cancel Guarantees of Origin for renewable sources, but also Certificates of Origin for other sources, for the complete quantity of electricity supplied to their end-customers. Their fuel supply mix is based on the percentage of the different types Guarantees of Origin and Certificates of Origin used in that activity.

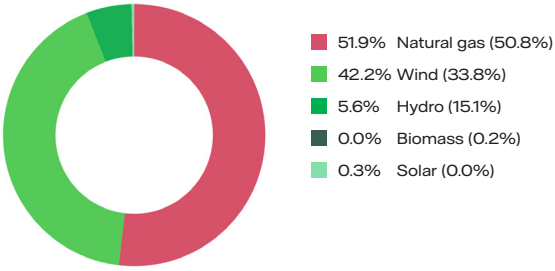
Our supply mix is shown in the figures on the next page which illustrates that share of renewable electricity increased by 5.5% from 50.0% in 2020 to 55.5% in 2021. The share of renewable electricity represents the number of Guarantees of Origin (GoO) used for green electricity supplied to end-customers. More information and definitions are published on www.vattenfall.nl/stroometiket.

### Fuel mix energy supply Vattenfall NV



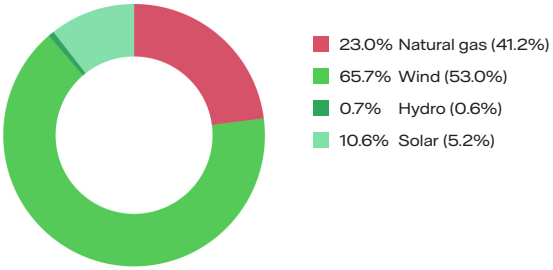

| | |
|---|---|
| Fossil-based energy | 44.5% |
| Renewable energy | 55.5% |
| $CO_2$ emissions rate | 177.2 g/kWh |
| Radioactive waste rate | 0.00000 g/kWh |

### Fuel mix energy supply business market



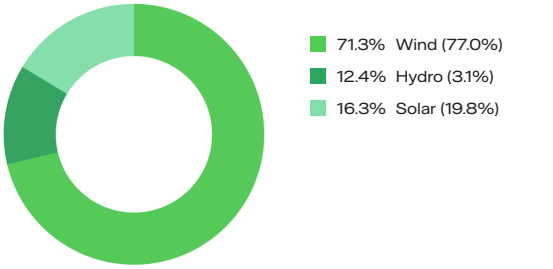

| | |
|---|---|
| Fossil-based energy | 51.9% |
| Renewable energy | 48.1% |
| $CO_2$ emissions rate | 206.5 g/kWh |
| Radioactive waste rate | 0.00000 g/kWh |

### Fuel mix energy supply consumer market



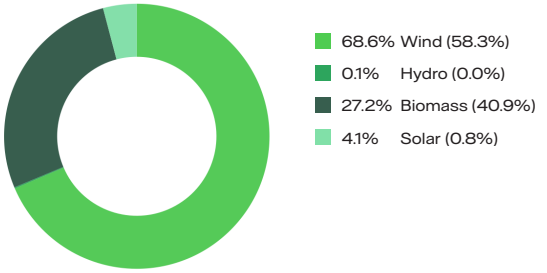

| | |
|---|---|
| Fossil-based energy | 23.0% |
| Renewable energy | 77.0% |
| $CO_2$ emissions rate | 91.4 g/kWh |
| Radioactive waste rate | 0.00000 g/kWh |

### Fuel mix energy supply powerpeers



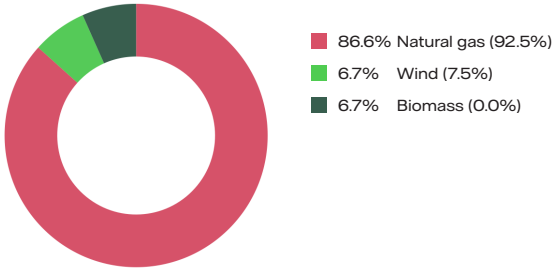

| | |
|---|---|
| Fossil-based energy | 0.0% |
| Renewable energy | 100% |
| $CO_2$ emissions rate | 0.0 g/kWh |
| Radioactive waste rate | 0.00000 g/kWh |

### Fuel mix energy supply Delta Energie




| | |
|---|---|
| Fossil-based energy | 0.0% |
| Renewable energy | 100.0% |
| $CO_2$ emissions rate | 0.0 g/kWh |
| Radioactive waste rate | 0.00000 g/kWh |

### Full mix energy supply Vattenfall Energy Trading Netherlands




| | |
|---|---|
| Fossil-based energy | 86.6% |
| Renewable energy | 13.4% |
| $CO_2$ emissions rate | 344.8 g/kWh |
| Radioactive waste rate | 0.00000 g/kWh |

# Financial Performance

## Income statement

The table below shows the results for 2021 compared to 2020.

| Amounts in EUR million, 1 January-31 December | 2021 | 2020 |
|---|---|---|
| Net sales | 3,321 | 2,571 |
| Cost of purchases | -1,952 | -1,215 |
| **Gross margin** | **1,369** | **1,356** |
| Other external expenses | -301 | -292 |
| Personnel expenses | -318 | -300 |
| Other operating incomes and expenses, net | 12 | 5 |
| Participations in the results of associated companies | -12 | -2 |
| **Operating profit before depreciation, amortisation and impairment losses (EBITDA)** | **750** | **767** |
| Depreciation, amortisation and impairments | -213 | -209 |
| **Operating profit (EBIT)** | **537** | **558** |

### Net sales

Net sales increased by 29.2% to EUR 3,321 million in 2021. Mainly the average gas prices have steeply increased, but also electricity prices were higher in 2021 compared to 2020, affecting both the net sales and the related cost of purchases. Electricity volumes were higher in 2021 due to higher demand by our customers. Overall gas volumes were lower compared to 2020 because delivery to one large customer has ended. The sale of princess Ariane Wind Park has contributed positively to net sales as well.

### Gross margin

In 2021, the gross margin increased by 1.0% to EUR 1,369 million. The gross margin is heavily affected by volatile and high market prices, but with effects offsetting each other. Wind farms have benefitted from the higher electricity prices, which have positively contributed to the gross margin. The increased number of wind projects together with revenues from divestments of wind-projects (e.g. princess Ariane Wind Park) have substantially contributed to the gross margin as well (2021: EUR 206 million versus 2020: EUR 77 million).

### Other external expenses

Operating expenses increased by 3.1% to EUR 301 million in 2021. The increase of the asset base in Wind is the main reason for cost increases. Maintenance costs for Heat power plants have increased due to execution of inspections. For E-mobility a provision has been taken regarding a claim from the municipality of Amsterdam to enforce hardware replacement of charging stations. IT-costs have increased as well in order to fulfill the increased demand for IT-services offset by lower marketing costs, lower costs from related parties in our markets segment and lower other overhead costs.

### Personnel expenses

The total number of FTE increased in 2021 to 3,673 FTE at the end of 2021; the number of FTE at the end of 2020 was 3,564. The largest growth was seen at Feenstra caused by hiring of mechanics and increasing staffing for support functions like IT and call centres. Other growth is related to development of wind projects, increased staffing for support functions and for our Heat business offset by realised efficiencies in the Customers & Solutions segment.

### Other operating income and expenses, net

The other income and expenses of EUR 12 million in 2021 mainly consists of dunning fees and sale revenues of a land lot. The other income and expenses of EUR 5 million in 2020 mainly consisted of dunning fees.

### EBITDA/ EBIT

EBITDA (earnings before interest, taxes, depreciation and amortisation) slightly decreased from EUR 767 million positive in 2020 to EUR 750 million positive in 2021. The volatile and high market prices result in an unrealised positive price development on our power and gas purchase contracts (2021: EUR 1,986 million vs 2020: EUR 329 million). These fixed-price contracts relate to forward purchase of gas and electricity that are sourced for delivery to our customers, who have fixed-price contracts, and power plants for the upcoming years. The positive price developments on the contract portfolio will be reversed during the coming years when physical delivery of these commodities takes place. The unrealised positive price development on power and gas purchase contracts are completely offset by a provision for onerous contracts recognised for a portion of the fixed-price electricity and gas contracts concluded by our customers (2021: EUR 2,199 million; 2020: EUR 0 million). Those contracts have

become onerous due to surging prices for both gas and electricity during the last quarter of 2021. The provision for onerous contracts will be released during the coming years when delivery of electricity and gas to our customers takes place. Other effects due to price developments are a positive hedge result for gas and $CO_2$ (2021: EUR 209 million vs 2020: EUR -2 million) and revaluation of gas stock in the gas storages (2021: EUR 269 million vs 2020: EUR 50 million). The growth in our Wind activities and divestment of wind parks have significantly contributed to the increase in EBITDA.

Depreciation, amortisation and impairments slightly increased from EUR 209 million to EUR 213 million in 2021. In 2021 the reversal of impairments of fixed assets at Feenstra amounted EUR 8 million, while the impairments in 2020 amounted only EUR 1 million. The regular depreciation increased in 2021, mainly due to an increase in the asset base for Heat and Wind.

The EBIT decreased from EUR 558 million positive in 2020 to a EUR 537 million positive in 2021. The price volatility has however a negative impact of EUR 112 million (2021: EUR 265 million; 2020: EUR 377 million) on this decrease of EBIT as highlighted already in the table on page 8 ('Our operational results in 2021'). Our business activities which are servicing our customers present a stable EBIT-contribution, while Wind activities are growing including the effect of sale of wind farms. The volatility of market prices has the largest impact on Markets. The operating profit (EBIT) excluding items affected by volatility of market prices is EUR 272 million (2020: EUR 181 million) and affected by the aforementioned increased EBIT-contribution of our Wind activities and the effect of sale of wind farms.

### Non-current assets

Non-current assets increased by 29% to EUR 3,557 million at the end of 2021. This increase is mainly due to the ongoing investments in wind farm Hollandse Kust Zuid and investments in the Amsterdam South Connection and Heat transfer station Hakfort. In addition, the non-current assets increased because of recognition of new lease contracts. For Heat distribution networks this concerns the extension of the cross-border lease contract of regions Duiven and Almere. Non-current assets have decreased due to divestment of princess Ariane Windpark (right-of-use-asset regarding land leases). A deferred tax asset for the provision for onerous contracts is recognised representing the difference between the carrying amount and tax base offset by other net deferred tax positions due to changes in trade derivatives positions, higher depreciation from previous year impairments, changes in tax rate, prior year adjustments and reversal of other temporary differences. Netting is only applied if the possibility exists to offset deferred tax assets and deferred tax liabilities within the same fiscal unity. The position of derivatives has increased related to the unrealised fair value gain on power and gas forward contracts due to steeply increased market prices.

### Current assets

Current assets increased by 172% to EUR 4,993 million at the end of 2021. Inventories have decreased due to the develop to sell strategy. In 2021 princess Ariane Wind Park (Wieringermeer Extension) has been sold. Gas inventories have increased in 2021 and there is a positive effect from revaluation of these gas stocks. Increase of trade receivables (wholesale trading power and gas) from related parties is affected by increase in volumes and prices. Trade receivables have increased as well due to a higher settlement position towards Vattenfall AB. The current position for derivatives has also steeply increased related to aforementioned unrealised fair value gains on power and gas forward contracts including gas storage.

### Cash and cash equivalents

Cash and cash equivalents increased by EUR 243 million to EUR 263 million at the end of 2021. In 2021 BASF bought 49.5% of Vattenfall's Hollandse Kust Zuid offshore wind farm in the Netherlands leading to a higher cash position

## Balance sheet

### Condensed balance sheet

| Amounts in EUR million | 31 December 2021 | 31 December 2020 |
|---|---|---|
| Non-current assets | 3,557 | 2,759 |
| Current assets | 4,993 | 1,834 |
| Cash and cash equivalents | 263 | 20 |
| **Total assets** | **8,813** | **4,613** |
| Equity | 3,259 | 2,475 |
| Non-current liabilities | 971 | 518 |
| Current liabilities | 4,583 | 1,620 |
| **Total equity and liabilities** | **8,813** | **4,613** |

required to fund the construction of the wind farm The other effect is primarily related to the delayed payment of connection and transmission fees to the grid companies. From an operational perspective a positive EBIT (when excluding the unrealised fair value gains) is offset by negative effect of changes in cashflow from operating assets and liabilities resulting in a positive cashflow from operations (EUR 418 million). This cashflow from operations was used for investments in property, plant and equipment (EUR 715 million). Partnering and joint funding of the Hollandse Kust Zuid Wind farm with BASF has led to a lower cash requirement for capital expenditure, which allowed for additional investments in other Property, plant and equipment.

### Equity

The equity increased by EUR 784 million to EUR 3,259 million. The positive result of EUR 420 million in 2021 contributes substantially. Furthermore, the sale of 49.5% of shares of Hollandse Kust Zuid to BASF has resulted in a surplus value which is represented as a direct change in equity (EUR 250 million). Opposite effect is the dividend payment to Vattenfall AB for 2020 of EUR 176 million. In 2021 there are minority owners with a share capital of EUR 310 million primarily due to BASF participating in Hollandse Kust Zuid. There are also minority owners for Wind farm Klaverspoor and the acquired unit ARX.

### Non-current liabilities

Non-current liabilities increased by 88% to EUR 971 million at the end of 2021. The main reason for this increase is the recognised provision for onerous contracts with a maturity of more than one year. This provision was created for fixed-priced electricity and gas contracts concluded with our customers, which have become onerous due to surging prices for both gas and electricity during the last quarter of 2021. The increase is also related to an increased number of connection fees and the recognition of lease liabilities due to the extension of the cross-border lease contract for heat grids Duiven and Almere. The sale of princess Ariane Wind Park has an opposite effect. Also, the amount of derivatives have increased. This is related to the unrealised fair value gain on power and gas forward contracts.

### Current liabilities

Current liabilities increased by 183% to EUR 4,583 million The increase relates to the recognised provision for onerous contracts covering the customer contracts with a maturity of less than one year and to higher trade payables for power and gas in the markets segment, which is related to increased volumes and prices. We received a margin call from one of our external trading parties and the delayed payment of connection and transmission fees to the grid companies led to a higher liability compared to last year. Also, the amount of derivatives have increased. Furthermore, the current tax position increased due to a steep increased profit in 2021. For E-mobility a provision has been taken regarding hardware replacement of charging stations (claim from municipality of Amsterdam).

## Net cash position

### Reconciliation net cash position

| Amounts in EUR million | 31 December 2021 | 31 December 2020 |
|---|---|---|
| Cash and cash equivalents | 263 | 20 |
| In-house Vattenfall group cash pool | 792 | 350 |
| Less: Restricted cash and cash equivalents 1 | – | – |
| **Total free cash** | **1,055** | **370** |
| Non-current interest-bearing liabilities | 207 | 202 |
| Current interest-bearing liabilities | 40 | 29 |
| **Gross debt position** | **247** | **231** |
| **Net cash/(debt) position** | **808** | **139** |

The net cash position at the end of 2021 amounted to 808 million, compared to a net cash position of EUR 139 million at the end of 2020. The cash position with Vattenfall AB has increased substantially. A decentral cash position has been realised in 2021 to construct Hollandse Kust Zuid and there was a delayed payment of connection and transmission fees to the grid companies. The steep increase in the net cash position is mainly due to the partial divestment of Hollandse Kust Zuid Wind Park (EUR 560 million) and received sales revenues from the divestment of princess Ariane Wind farm (EUR 324 million). Investments in the Amsterdam South Connection, Heat Transfer Station Hakfort and Hollandse Kust Zuid Windfarm have been made in 2021 and overall investments have increased compared to 2020. Cashflow from operating activities is stable: increased operating result (including positive effect from the divestment of princess Ariane Wind farm) is offset by negative effect of changes in cashflow from operating assets and liabilities.

# Our people

Having the right people with the right competencies and skills, both today and in the future, is crucial for Vattenfall's success. We believe we need to strive tirelessly to empower our people. We also ensure diversity in all aspects to achieve a breadth of ideas and experience, so that our people can have an open dialogue and learn from each other. We work actively to ensure that employees feel empowered, engaged and that they can continuously develop in order to be able to perform to their utmost, while ensuring a safe, inspiring, inclusive and caring work environment.

Our people strategy encompasses all stages of an employee's experience and focuses on attracting, retaining and enhancing employees. This works to secure the relevant, diverse competencies we need, both now and in the future, which is key for delivering on our strategy. Vattenfall cooperates with schools and universities to attract the right people with the specific skill sets that Vattenfall needs today and in the future. We have several partnerships to increase the interest in energy and technology among young people to secure the long-term competence supply. In the Netherlands Vattenfall reached the 1st place of most attractive employers in the energy sector (Randstad). Another achievement is an improved ranking position of most attractive employer among engineering, IT and natural science students (from 36 (2020) to 26 (2021) Universum).

All activities at Vattenfall in recruitment and selection are carried out with diversity and inclusion in mind. Vattenfall offers an informal and supportive environment where we encourage smart working and celebrate success. We believe that a positive balance between personal and professional life benefits everyone and to promote this we offer flexible work options. We strive to find a balance between working in the office and working from home. In the Netherlands we do this in close dialogue with the manager.

At Vattenfall we conduct many initiatives to retain people with key competencies and to provide support for employees to continuously develop their strengths and feel empowered. With a rapidly changing market that is also becoming more diversified, work descriptions as well as necessary capabilities and skills of our people must evolve as well.

Leaders in Vattenfall are role models and pillars of our work culture. We therefore support them with tools to empower and engage their teams. We have a Leadership Focus Programme which aims to give managers at all levels guidance for their leadership. The programme is centred around the focus areas Accelerate Learning, Connect People and Drive Innovation and offers managers an opportunity to gain deeper understanding of effective leadership as desired within Vattenfall. We offer a wide range of training opportunities and e-learning courses to all our employees.

Ensuring employee health and safety (H&S) – both physical and mental – is one of our guiding principles, and we have a goal of zero accidents and zero work related illnesses. To ensure that employees can perform we strive for a safe, inspiring and inclusive environment where a clear focus is maintained on H&S leadership as well as organisational and social health aspects. World class health and safety can only be achieved by improving our Health & Safety (H&S) culture. The work environment has been in flux over the past year, H&S leadership has needed to be flexible to adapt to a hybrid working environment as employees divide their time between remote working and office working. Vattenfall has continued to support managers and employees with tools to address these challenges and H&S culture has taken a central position in the workplace as well as in discussions about the future of work at Vattenfall. Mental health can be negatively impacted by financial stress. Therefore, Vattenfall NV started a cooperation with NIBUD, to provide support to employees in financial difficulties.

The organisational and social aspects of health were addressed in online workshops and podcasts about working from home, stress, and work/life balance. Other initiatives included online coaching, such as "Flow", a tool for mental health, self-assessment and support, or "Mystery Coffee", where employees are randomly paired up to foster connectivity. Meanwhile, we are working to counteract all forms of harassment. Routines for reporting and managing these incidents have been in place for many years. The decreasing trend from previous years has continued despite the effects of the pandemic. The sick leave rate for the Netherlands has slightly decreased to 3.8% opposed from 4.0% in 2020 (excluding Feenstra).

We continue to work relentlessly and focus on improving H&S culture and maturity level of the entire organisation, including top management. Vattenfall's operations contains a large number of work activities with potential risks of personal injury and ill health. Focus is therefore on active hazard reporting to detect and mitigate serious hazards and risks before they become incidents. Incidents are followed up with a Root Cause Analysis, continuous assessment, risks identification and training and safe operating procedures developed and implemented consequently as well as preventive and corrective actions. The LTIF (including Feenstra) in the Netherlands decreased from 1.2 in 2020 to 1.1 in 2021.

Our D&I strategy is founded on the conviction that diversity and inclusion create value for Vattenfall, its employees, and society in general. This is our commitment according to the 3 pillars of our strategy: 1) Embedding D&I by living our

principles, 2) Thinking broadly and driving all dimensions of diversity and 3) Including everyone; our managers will lead the way. Workshops are in development, conducted already and for all employees to attend by 2023 and D&I is part of the business planning process which requires a solid understanding of the business needs from a D&I perspective, target setting and an action plan to achieve the targets. Leadership Toolbox offers managers a resource for driving behavioural change with their team. In the Netherlands, the number of employees increased from 3,564 FTEs in 2020 to 3,673 FTEs in 2021, of which 928 are female and 2,745 male.

One of the ways we use to measure the success of our efforts is the annual employee survey, My Opinion conducted in Vattenfall. The survey tracks how well our employees feel connected to Vattenfall's purpose, how each individual feels about their contribution and identifying opportunities to make everyone feel more empowered, included and engaged.

## Integrity

Operating our business with integrity is essential for ensuring that we live up to our stakeholders' expectations. They expect us to conduct our business in a fair and responsible manner. We have a zero-tolerance policy for bribery and corruption, and we are a member of the Partnering Against Corruption Initiative (PACI), a cross-industry collaboration launched by the World Economic Forum, as well as of Transparency International Sweden. We require that all employees take personal responsibility to act in accordance with the company's ethical guidelines, which are laid out in the Vattenfall Code of Conduct and Integrity. Tailor-made face-to-face training programmes, e-learning tools, instructions, flowcharts and Q&A documents support these ambitions. We expect our suppliers and business partners to act ethically and in full compliance with the applicable rules in every country they do business, as outlined in the Vattenfall Code of Conduct for Suppliers. Read more about Vattenfall's integrity organisation in the Corporate Governance Report in the annual report of Vattenfall AB. The Vattenfall Code of Conduct and Integrity applies for all employees worldwide as well as temporary staff (such as consultants and contractors) acting on behalf of Vattenfall. It describes the behaviour we expect of all representatives of Vattenfall. Every employee is required to do an e-learning on the Code.

Additionally, all members of the Executive Group Management and all managers three levels below, as well as other relevant employees (such as those with external contacts on a regular basis), are required to participate in the Vattenfall Integrity Programme (VIP). The VIP includes both e-learnings and instructor-led training on the Code of Conduct and Integrity, the whistleblowing function, antitrust/competition issues, anti-corruption and conflicts of interest. The purpose of the VIP is to raise the level of awareness, ensure that all employees understand our integrity standards and ensure a common compliance culture throughout the Group. It is the responsibility of every manager to lead by example and to ensure their team members understand our way of working. Suspected misconduct in Vattenfall is to be reported to the employee's immediate manager, to the Internal Audit department or to the Whistleblowing Function, for example via the online Whistleblowing Channel. Incident investigations are led by appointed auditors, for example from Vattenfall's Group Internal Audit unit, HR department or Corporate Security & Resilience unit. Additionally, we have since many years locally appointed external ombudspersons (attorneys) and a website WhistleB to whom suspected improprieties can also be anonymously reported. If, despite all efforts to prevent non-compliance, non-compliance is determined, mitigating actions are defined and followed-up on. Reported incidents and improprieties are investigated and subject to a lessons-learned process to ensure continuous improvement within the company.

Our integrity work is not just an internal issue – we also have strict requirements on our suppliers and counterparties. We require our suppliers to comply with the Vattenfall Code of Conduct for Suppliers, or an equivalent standard agreed together with us. In the integrity area, the Code of Conduct for Suppliers puts special emphasis on business integrity, anti-corruption, conflicts of interest and competition law as well as information on how to use the whistleblowing function. It is based on, among other things, the UN Global Compact, the UN Guiding Principles for Business and Human Rights, ILO declarations and the OECD Guidelines for Multinational Enterprises. Additionally, Vattenfall has a process for managing counterparties where we seek to actively identify, manage and control the risk of transacting with counterparties that may be involved in money laundering, tax fraud, terrorist financing or that may be subject to EU sanctions or have poor performance on environment, social and governance issues.

In 2019, the House for Whistleblowers concluded that two employees were treated adversely as a result of reporting alleged incidents. Vattenfall respects these conclusions and is taking appropriate actions to remedy the situation. Vattenfall initiated additional external assessments and is striving towards a solution with the employees.

# Business risks and Risk management

## Risk management

Vattenfall NV is exposed to a number of risks that could have an adverse impact on operations and outcome. A better understanding of and control over these risks can potentially generate better results from the business activities. The Vattenfall NV Management Board is responsible for the company's risk management and control system. Vattenfall NV strives for transparency with regard to risk exposure and recognises all risks that may impact the company.

Vattenfall NV, as part of Vattenfall, applies the 'three lines' model for the management and control of risks. The first line consists of the business units, which own and manage risks. The risk organisation makes up the second line and is responsible for monitoring and controlling risks. The internal audit function is the third line.


The following paragraphs describe the performed risk management efforts.

**The Vattenfall Risk Management Framework**

The objective of the Vattenfall Risk Management Framework is to provide reasonable assurance that the achievement of strategic and operational objectives is effectively monitored, that the financial reporting is reliable, and that current laws and regulations are complied with.

The framework is part of Vattenfall NV's Governance and designed to ensure an acceptable risk exposure, based on a thorough and transparent analysis of Vattenfall NV's risks, thus facilitating the in-control situation and risk exposure based on an appropriate assessment of the risk-reward balance. The framework facilitates the monitoring of risks with a potential impact on the organisation and is based on a set of best practice policies, procedures and internal control mechanisms. All risks as reported and discussed are continuously reconciled with the risk appetite defined by Vattenfall NV.

The Vattenfall Risk Management Framework focuses on ensuring that the most important risks are identified and that appropriate control measures are executed to manage these risks. The Framework is based on the COSO Enterprise Risk Management (ERM) Framework and the three lines model.

The ERM is executed as a continuous process for identifying, assessing, managing and following up on risks at all levels of the business at an early stage. An update of the risk situation is presented periodically for discussion at Management and Supervisory Board level.

Important components of Vattenfall NV's governance to manage risks are:

- The Vattenfall Management System (VMS) which Vattenfall NV, as part of Vattenfall, implemented and which contains regulations, guidelines and procedures that are relevant for all Vattenfall employees and for the relationship between Vattenfall AB and its subsidiaries, Business Units, Staff Functions and other Vattenfall companies. VMS includes the Vattenfall Code of Conduct and the Whistle-blower Policy, which are publicly accessible at www.vattenfall.com. VMS also comprises the IFRS accounting manual and the reporting manual;
- The Vattenfall Code of Conduct, which sets the behavioural rules for all employees. The Code of Conduct fosters an honourable business culture in which the rules applicable to employees are clear. Breaches of the Code of Conduct, if they come to the attention of Vattenfall, will be investigated and may lead to sanctioning;

- The Risk Management organisation, headed by the Chief Risk Officer of Vattenfall, supports Vattenfall NV in applying Vattenfall's risk framework. The Risk Management organisation monitors market risk on a daily basis, manages credit risk, oversees compliance with policies and risk limits, and guides the group-wide reporting of significant business risks. Together with other specialist risk stakeholders (for example health and safety, information security), the Risk Management organisation supports the Business Units in the identification, quantification, mitigation, monitoring and reporting of risks;
- The Integrity function, which advises and reports on issues with regard to competition, anti-bribery/corruption, conflict of interest, the whistleblowing function and inside information. In addition, the function advises management on measures to enhance compliance and monitoring compliance risks, and it stimulates awareness of the Code of Conduct. The Vattenfall NV Integrity, Fraud and Incidents report is submitted semi-annually to the Vattenfall NV Management Board and Supervisory Board. This report focuses on integrity developments, fraud and other incidents reported in the Netherlands and is a combined report of Internal Audit and the Integrity department;
- The Legal department, which submits the Claims & Litigation report to the Management Board of Vattenfall NV. The report contains a summary of current legal proceedings and disputes;
- The Vattenfall Internal Financial Control Framework (IFC), which reports on the effectiveness of the controls which aims to assure reliable financial reporting and which is partly based on the results of the key controls for the primary processes within the different business areas;
- The planning & control cycle, in which annual budgets are assigned for each organisational unit and the outcome of which is subsequently discussed between the Management Board and the Business Units;
- The periodic reporting on Business Units' financial and operational performance, partly based on the system of Key Performance Indicators (KPIs);
- Business Areas within Vattenfall NV report risks into the ERM which enables Risk Management to create Enterprise Risk Report, which summarises the most significant risks facing the organisation. The Vattenfall NV Risk reports are produced semi-annually: in the beginning of the year providing the risk values for the following Business Plan period and mid-year, whereby changes to the risk levels are highlighted but the values are not recalculated. The reports are discussed with the Management and Supervisory Board;
- The responsible management's confirmation at corporate and unit level of the reliability of the financial reporting through signed Letters of Representation;
- The execution of audits by the Internal Audit department in conformity with the annual plan, which is approved by the Supervisory Board. The outcome of their audits are discussed with management and summarised for the Supervisory Board;
- The follow-up of findings from internal and external audits by the Business Units, which are periodically reported on to the Management Board and summarised for the Supervisory Board.

All risks are quantified both with regard to exposure as well as with regard to probability according to the agreed ERM methodology. The Management Board periodically discusses all aspects of the framework, including all reported individual and aggregated quantified risks. This includes conclusions with regard to either the acceptance of the ultimate risks, or the instigation of actions to reduce risks, as well as with regard to the reconciliation with the risk appetite.

## Main risks and mitigation

This section describes the most important risks within Vattenfall NV.

- Market Price Risk Assets. The revenues (Gross Margin) from Vattenfall NV's generation assets are highly dependent on the pricing developments on the energy markets. Over the course of 2021, both prices and volatilities increased steadily, particularly in the final quarter. Less wind and high prices in Europe on gas, coal and $CO_2$ are all factors that affect the price of electricity in addition to demand levels.
  Mitigation(s): Risk is actively managed and monitored via the Hedge Strategy Process on Vattenfall level.
- Decrease of sales volume. Developments in energy efficiency and decentralised generation could lead to lower consumption and demand for electricity and gas resulting in lower margins on commodities.
  Mitigation(s): Decrease operational costs and development of volume independent solutions (e.g. solar lease, energy roof, storage).
- $CO_2$ low energy generation. Introduction of a $CO_2$ floor price and replacement of gas used for heating by district heating systems based on renewable sources might affect presently invested capital and required replacement investments.
  Mitigation(s): Continuous monitoring of and acting on technical and regulatory developments.
- Increased competition. Missing profit due to increased competition both on current customer base and innovation.
  Mitigation(s): Continuously monitor the market for competitive products & new developments; prioritise development areas (short term versus long term); develop non-traditional business models and actively work together with start-ups and other market entrants;

attract right capability and create multi-disciplinary teams and foster customer co-creation.

- Weather dependence of gross margin. Temperature is an important driver for gas and heat volumes. In warm winters the volume offtake will be lower with a negative impact on gross margin.
  Mitigation(s): Temperature as well as impact on volume offtake is monitored. Explore product innovation to make sales less temperature dependent.
- Operational and Compliance risks. This includes all risks of operating the business and includes breakdown of technical processes, data and information security risks and non-compliance with law and regulation. Fraud and unethical conduct could disrupt operations as well and have negative impact on people and environment.
  Mitigation(s): Maintenance, Business Continuity plans, Code of Conduct and Integrity, Code of Conduct for Suppliers, Compliance officers for dedicated risk areas.

Note 28 to the financial statements provides further qualitative and quantitative information on financial risk management.

### Responsibility

Vattenfall NV's Management Board is responsible to ensure that the design and operation of Vattenfall's internal risk management and control system is effective. During the year, the design and operation of this system was monitored and evaluated, amongst other based on the business control information, the Internal Audit reports and the management letter from the external auditor.

The Vattenfall NV Enterprise Risk Management Framework does not provide absolute assurance as to the achievement of the corporate objectives, nor does it guarantee that material errors, losses, fraud or violations of laws and regulations will not occur in the operational processes and/or the financial reporting.

With due regard to the above, the Management Board is of the opinion that the internal risk management and control systems provide a reasonable assurance that the financial reporting does not contain any errors of material importance and that the risk management and control systems worked properly with regard to the financial reporting risks in the year under review.

The above was also discussed with the Supervisory Board in the presence of the internal and external auditors.

## Outlook 2022

Our portfolio of energy solutions will be scaled by establishing sales channels that support our growth targets coupled with automated low-cost operations. This will be especially relevant for the Dutch market, where a national climate agreement was passed in the Parliament in 2019, which among other things aims at gradually phasing out natural gas. We are expanding our district heating network, connecting new customers and increase the sourcing of green heat from industrial facilities owned by third parties as well as heat from other sources. The second half of 2021 was largely characterised by the challenging market situation, with record high electricity prices in Europe and extreme volatility. Many customers are struggling with their electricity and gas bills, and the discussion about what needs to be done to ease the situation is ongoing. We try to help our customers on a case-by-case basis to the best of our ability since price volatility of electricity and gas will remain also in 2022. We also would like to emphasize that we continue our involvement with the Energy Poverty Initiative and further develop support systems for customers who have difficulties paying their bills.

Vattenfall's ambition is to enable a climate smart life of our customers and to offer our products to more customers. For this, we will continue to work towards exceeding our customers' sustainability expectations with our products and services. We plan to grow our customer base organically while also working on retention initiatives, just as we will act upon acquisition opportunities when they arise as well as to further develop a portfolio of products and services that help our customers to reduce their $CO_2$ emissions. We aim to offer fossil-free electricity to all our customers the coming years and continue to develop a portfolio of energy solutions to enable the energy transition for our customers. This portfolio includes biogas, heat pumps and other energy solutions. In 2022, we will take further steps in reducing direct emissions from our own activities and indirect emissions from purchased products and services from our suppliers as defined in Scope 1 and Scope 2 of the Science Based Targets initiative.

The electrification of transport is another main area where we will support our customers to become fossil free. We continue to extend our e-mobility services and our charging network in The Netherlands, capturing significant benefits of scale with the Group. We will continue to set-up partnerships and we will enhance value for our customers and key partners, such as leasing companies and car makers. In provinces Noord-Brabant and Limburg we will install up to 8,000 charging points until 2024. We will also continue our pilots in smart charging to better match charging of EVs with renewable production.

Renewable energy is key in supporting Vattenfall's purpose to Power Climate Smarter Living and realise the transition to fossil-free living. We will continue to invest in wind, heat grids, solar and battery projects in the coming years as well as optimise our operations to maximise renewable electricity generation in a sustainable manner. Sustainability

is the basis for Vattenfall's strategy and is a prerequisite for long-term profitability. In the heat grids, wind, solar and battery business, sustainability has been identified as one of the key levers to facilitate our ambition. Vattenfall is also working on technology development within several fields. For instance, we are looking into using larger turbines, as it reduces installation, operation, and maintenance costs as well as significantly reduces the environmental impact of the wind farm. Data-driven operations and maintenance, such as predictive maintenance, is key to increasing efficiency and reducing costs. Processes and tools have been improved and the focus in the coming years will be on strengthening the foundation as well as on performance optimisation and automation. There are investments planned in wind farms, solar projects, heat grids and biomass fired heat-only boiler and an e-boiler in Diemen. Regular investments are primarily related to planned major overhauls of some of our power plants. The investments will be financed through positive cash flows from operations and revenues from sale of wind farms and if necessary by internal loans from our parent company Vattenfall AB. We have a credit facility in place with our parent Vattenfall AB of EUR 500 million, which is currently not utilised.

The aforementioned growth scenario and the corresponding investment program is accompanied by an expected increase of workforce for Heat, Wind, E-mobility and Feenstra. For Heat the increase of activities and maintenance requires more workforce, while the development of wind farms and solar and battery projects implies additional staffing for Wind. Feenstra has the ambition to increase in mechanics while E-mobility is foreseeing growth of e-mobility services and the charging network as well.

The Climate Agreement has led to the development of new legislation in a number of areas. These include district heating, where new frameworks are proposed on a market model, a minimum decarbonisation path, tariff regulation, and security of supply. A new Energy Act will revise and merge the current Gas and Electricity Acts. Vattenfall NV is working to eliminate natural gas from the district heating network in Amsterdam, Diemen, and Almere. Political and public support for biomass for heating in the built environment has dropped, and a phase-out of subsidies for new biomass boilers has been proposed. We are in close dialogue with local and national government and stakeholders regarding the biomass-fired plant in Diemen. Additionally, we plan to expand the generation capacity with a power-to-heat boiler. Besides stabilising the grid, this boiler will ensure that surplus solar and wind power can be put to good use instead of being switched off. Furthermore, Vattenfall NV is closely involved in the feasibility studies for geothermal heat, residual heat from data centres, and heat from various other sources in the city of Almere and Amsterdam.

### COVID-19

Also 2021 was affected by the Covid-19 pandemic with periods of lock-down in Europe and continuing pressure on the industry. We are proud of all our employees who have been working hard every day to ensure the continuation of stable delivery of electricity, gas and heat to our customers. Measures to reduce the risks of the virus for our employee are still effective. We have supported our employees in various ways and they have worked from home if possible. Protocols and measures have been introduced already in 2020 to mitigate the risk for our employees that cannot work from home as they work in vital processes or at the sites of our clients. Vattenfall has been developing policies, that include input from employees, for the post Covid-19 period. The virus had impact on the whole economy, affecting both the energy demand from our business consumers and the energy prices. This continued to impact our performance also in 2021. We have been closely monitoring our liquidity situation and have taken measures to secure our operations. We are now gradually leaving the pandemic behind us.

## Composition of the Management and Supervisory Board

On August 1st, 2022, Cindy Kroon joined the Management Board of Vattenfall N.V. In addition to CEO Martijn Hagens and CFO Alexander van Ofwegen, Cindy Kroon will fulfill the role of Chief Commercial Officer (CCO). With 2/3 of the Supervisory Board seats filled with women, the distribution of board seats between men and women in the Supervisory Board exceeds the guidelines of the Act on Management and Supervision.

### A final word

In 2021 we were again faced with challenging circumstances, which was for the consecutive year dominated by the coronavirus pandemic with prolonged lockdowns. On top of that we saw a sharp increase and volatile energy prices in the second half of the year. Despite these and many other challenges over the last 12 months we were able to again improve our Net Promoter Score compared to 2020 coupled with a stable and loyal customer base. Both in our district heating business as well as in our renewable portfolio we have taken steps to deliver on our ambition to reduce $CO_2$ emissions. All these achievements are driven by our enthusiastic and dedicated employees who make a difference on a daily basis. Without this dedication and commitment we could not have faced and overcome the challenges we had and we are convinced we can face the challenges ahead of us. We are extremely proud of all our employees in these challenging times with a lot of uncertainty and would like to express our gratitude to all our employees for their great work. Thanks to the flexibility and commitment of our employees, we were able to maintain all of our critical operations at all time as well as deliver services at the homes and businesses of our customers.

Amsterdam, September 2022

The Management Board
Martijn Hagens, Alexander van Ofwegen and Cindy Kroon.

# Financial statements

# Consolidated accounts

## Consolidated statement of comprehensive income

| Amounts in EUR million, 1 January - 31 December | Note | 2021 | 2020 |
|---|---|---|---|
| Net sales | 4 | 3,321 | 2,571 |
| Cost of purchases | 5 | -1,952 | -1,215 |
| Other external expenses | 7 | -301 | -292 |
| Personnel expenses | 32 | -318 | -300 |
| Other operating incomes and expenses, net | | 12 | 5 |
| Participations in the results of associated companies | 15 | -12 | -2 |
| **Operating result before depreciation, amortisation and impairment losses (EBITDA)** | | **750** | **767** |
| Depreciation, amortisation and impairments | 12, 13 | -213 | -209 |
| **Operating result (EBIT)** | | **537** | **558** |
| Financial income | 8 | 2 | 2 |
| Financial expenses | 9 | -5 | -4 |
| **Result before income taxes** | | **534** | **556** |
| Income tax | 10 | -114 | -113 |
| **Result for the year attributable to owner of the Company** | | **420** | **443** |
| Other comprehensive income | | **–** | **–** |
| **Total comprehensive income for the year** | | **420** | **443** |

## Consolidated balance sheet

| Amounts in EUR million | Note | 31 December 2021 | 31 December 2020 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Intangible assets | 6, 12 | 139 | 140 |
| Property, plant and equipment | 6, 11, 13 | 2,883 | 2,398 |
| Participations in associated companies and joint ventures | 15 | 44 | 25 |
| Other shares and participations | | 1 | 2 |
| Derivative assets | 27 | 252 | 25 |
| Deferred tax assets | 10 | 176 | 122 |
| Contract assets | 4 | 5 | 5 |
| Other non-current receivables | | 57 | 42 |
| **Total non-current assets** | | **3,557** | **2,759** |
| **Current assets** | | | |
| Inventories | 16 | 371 | 411 |
| Trade receivables and other receivables | 17 | 2,234 | 1,000 |
| Advance payments paid | 18 | 2 | 3 |
| Derivative assets | 27 | 2,102 | 212 |
| Prepaid expenses and accrued income | 19 | 279 | 205 |
| Current tax assets | 10 | 5 | 1 |
| Cash | 20 | 263 | 20 |
| Assets held for sale | | – | 2 |
| **Total current assets** | | **5,256** | **1,854** |
| **Total assets** | | **8,813** | **4,613** |
| **Equity and liabilities** | | | |
| **Equity attributable to owner of the Company** | | | |
| Share capital and premium | | 2,895 | 2,895 |
| Retained earnings incl. profit for the year | | 54 | -420 |
| **Total equity attributable to owner of the Company** | 30 | **2,949** | **2,475** |
| **Equity attributable to non-controlling interests** | | 310 | – |
| **Total equity** | | **3,259** | **2,475** |
| **Non-current liabilities** | | | |
| Interest-bearing liabilities | 11, 21 | 207 | 202 |
| Provisions | 23 | 415 | 80 |
| Derivative liabilities | 27 | 128 | 32 |
| Deferred tax liabilities | 10 | 1 | – |
| Contract liabilities | 4 | 220 | 204 |
| **Total non-current liabilities** | | **971** | **518** |
| **Current liabilities** | | | |
| Trade payables and other liabilities | 24 | 1,779 | 1,007 |
| Contract liabilities | 4 | 37 | 23 |
| Advance payments received | 25 | 155 | – |
| Derivative liabilities | 27 | 51 | 5 |
| Accrued expenses and deferred income | 26 | 528 | 525 |
| Current tax liabilities | 10 | 92 | 14 |
| Interest-bearing liabilities | 11, 21 | 40 | 29 |
| Provisions | 23 | 1,901 | 17 |
| **Total current liabilities** | | **4,583** | **1,620** |
| **Total equity and liabilities** | | **8,813** | **4,613** |

## Consolidated statement of cash flows

| Amounts in EUR million, 1 January-31 December | 2021 | 2020 |
|---|---|---|
| **Operating activities** | | |
| **Operating result before depreciation, amortisation and impairment losses** | **750** | **767** |
| Tax paid | -98 | -17 |
| Capital gains/losses, net | 61 | 7 |
| Interest received | 2 | 2 |
| Interest paid | -5 | -4 |
| Changes in the fair value of derivatives | -1,975 | -242 |
| Other, incl. non-cash items | 2,190 | -2 |
| **Funds from operations (FFO)** | **925** | **511** |
| Changes in inventories | 44 | -146 |
| Changes in operating receivables | -1,510 | 250 |
| Changes in operating liabilities | 803 | -198 |
| Other changes | 156 | -8 |
| **Cash flow from changes in operating assets and operating liabilities** | **-507** | **-102** |
| **Cash flow from operating activities** | **418** | **409** |
| **Investing activities** | | |
| Acquisitions in group companies | -9 | – |
| Investments in associated companies and other shares and participations | -21 | – |
| Other investments in non-current assets | -659 | -423 |
| **Total investments** | **-689** | **-423** |
| Divestments | 560 | – |
| Loans granted | -9 | -13 |
| Loans repaid | 2 | 3 |
| **Cash flow from investing activities** | **-136** | **-433** |
| **Cash flow before financing activities** | **282** | **-24** |
| **Financing activities** | | |
| Interest-bearing debt raised | 6 | – |
| Interest-bearing debt repaid | -45 | -39 |
| **Cash flow from financing activities** | **-39** | **-39** |
| **Cash flow for the year** | **243** | **-63** |
| **Cash** | | |
| Cash at start of year | 20 | 83 |
| Cash flow for the year | 243 | -63 |
| **Cash at end of year** | **263** | **20** |

## Consolidated statement of changes in equity

| Amounts in EUR million | Attributable to owner of the Company | | | Attributable to non-controlling interests | Total equity |
|---|---|---|---|---|---|
| | Share capital and premium | Retained earnings | Total | | |
| **Balance brought forward 2021** | **2,895** | **-420** | **2,475** | **–** | **2,475** |
| **Comprehensive income for the year** | **–** | **420** | **420** | **–** | **420** |
| Dividends paid to owners | – | -196 | **-196**[1] | – | **-196** |
| Changes in ownership in Group companies on divestments of shares to owners of non-controlling interests | – | 250 | **250**[3] | 147[2] | **397** |
| Contribution to/from non-controlling interest | – | – | **–** | 163[2] | **163** |
| **Total transactions with equity holders** | **–** | **54** | **54** | **310** | **364** |
| **Balance carried forward 2021** | **2,895** | **54** | **2,949** | **310** | **3,259** |

| Amounts in EUR million | Attributable to owner of the Company | | | Attributable to non-controlling interests | Total equity |
|---|---|---|---|---|---|
| | Share capital and premium | Retained earnings | Total | | |
| **Balance brought forward 2020** | **2,895** | **-863** | **2,032** | **–** | **2,032** |
| **Comprehensive income for the year** | **–** | **443** | **443** | **–** | **443** |
| Dividends paid to owners | – | – | **–** | – | **–** |
| Changes in ownership in Group companies on divestments of shares to owners of non-controlling interests | – | – | **–** | – | **–** |
| Contribution to/from non-controlling interest | – | – | **–** | – | **–** |
| **Total transactions with equity holders** | **–** | **–** | **–** | **–** | **–** |
| **Balance carried forward 2020** | **2,895** | **-420** | **2,475** | **–** | **2,475** |

1) During the year 2021, dividends amounting to EUR 196 million were distributed to the shareholder. The dividend per share amounted to EUR 1.43.
2) During the year 2021, the Company sold a minority share of its interest in the Hollandse Kust Zuid project to BASF.
3) The sale of the minority share in the Hollandse Kust Zuid project to BASF has resulted in a surplus value which is represented as a direct change in equity.

See also Note 30 to the consolidated accounts, Specifications of equity.

# Notes to the consolidated accounts

## Note 1 Company information

Vattenfall N.V. is a public limited liability company, registered in Amsterdam, the Netherlands. The most significant activities of Vattenfall N.V. and its subsidiaries comprise the production and supply of electricity, gas, heat and cooling to customers in the Netherlands, as well as a broad portfolio of energy-saving products and services.

'We', 'Vattenfall NV', 'the Company' or similar expressions are used in these consolidated accounts as a synonym for Vattenfall N.V. and its subsidiaries. 'Vattenfall AB', 'the Parent' or 'the parent company' are used in these consolidated accounts as a synonym for Vattenfall AB and its subsidiaries. Vattenfall NV is registered at the Dutch Chamber of Commerce with registration number 33292246.

Vattenfall AB, owned by the Swedish government, is the sole shareholder of Vattenfall NV. The financial data of Vattenfall NV is included in the consolidated accounts of Vattenfall AB.

These consolidated accounts for the financial year 2021 are authorised for publication by the Management Board and Supervisory Board on 18 May 2022. Subsequently, these consolidated accounts have been adopted by the general meeting of shareholders on 18 May 2022.

As the company income statement for 2021 of Vattenfall NV is included in the consolidated accounts, a condensed income statement has been disclosed in the company accounts in accordance with Section 402, Book 2, of the Dutch Civil Code.

## Note 2 Accounting policies

### Conformity with standards and regulations

The consolidated accounts have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) as well as the interpretations issued by the IFRS Interpretations Committee (IFRS IC) as endorsed by the European Commission for application within the EU and also comply with the financial reporting requirements included in Part 9 of Book 2 of the Dutch Civil Code.

### Going concern

These financial statements have been prepared on the basis that the Company will continue to operate as a going concern. Management does not expect any impact on the going concern assumption as a result of the current uncertain market conditions following the Russian invasion of Ukraine.

### Important changes in the financial statements compared with the preceding year

#### Recalculation of financial statements for 2020

No recalculations were made.

#### Presentation of financial statements

No changes in the presentation of the financial statements were made.

### New IFRSs and interpretations effective from 2021

None of the amendments to the existing accounting standards effective from 2021 have had a material impact on the Vattenfall NV's financial statements.

### New IFRSs and interpretations effective from 2022 and later

A number of accounting standards and interpretations have been published, but have not become effective. These are not, with the exception below, considered to have a material impact on Vattenfall NV's financial statements.

#### Amendment to IAS 16 Property, Plant and Equipment

The amendment changes the standard to prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the cost of producing those items, in profit or loss. The effect is expected to be marginal at Vattenfall NV level, however, the effect on the cost of future individual assets may be significant.

### Basis of measurement

Assets and liabilities are reported at cost or amortised cost, except for certain financial assets and liabilities and inventories held for trading, which are measured at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Vattenfall NV uses valuation methods that reflect the fair value of an asset or liability appropriately. Financial assets and liabilities that are measured at fair value are described below according to the fair value hierarchy (levels), which in IFRS 13 is defined as follows:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: 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: Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs)

Classification into a level is determined by the lowest level input that is significant for the measurement of the fair value at the end of a reporting period. Vattenfall NV assesses whether reclassifications between the levels are necessary. Observable input data are used whenever possible and relevant. For assets and liabilities included in Level 3, fair value is modelled either on the basis of market prices with adjustments that consider specific terms of a contract, or on the basis of unobservable inputs such as future cash flows. The assumptions for the estimated cash flows are monitored on a regular basis and adjusted if necessary.

**Determination of result**

The result is the difference between the net sales and other income and the costs and other charges during the year. Income is recognised in the year in which it is realised. Losses are taken in the year in which they are foreseeable. Profit or loss is determined taking into account the recognition of unrealized changes in fair value of derivative financial instruments.

**Functional and presentation currencies**

The functional currency is the currency of the primary economic environment in which each Vattenfall NV's entity operates. The Company's functional currency is Euro (EUR), which is also the presentation currency of both Vattenfall NV's consolidated and company financial statements. This means that the financial statements are presented in Euro. Unless otherwise stated, all figures are rounded off to the nearest million Euro (EUR million).

**Significant accounting policies**

The accounting policies of the Company described below and in each respective note to the consolidated accounts have been applied consistently for all periods presented in the consolidated financial statements.

**Principles of consolidation**

The consolidated financial statements cover Vattenfall NV, its subsidiaries, associated companies and joint ventures and joint arrangements that are reported as a joint operation according to IFRS 11.

**Subsidiaries**

Subsidiaries are all entities over which Vattenfall NV has control. Control is considered to exist when the following three criteria are met: (1) the investor is exposed to or is entitled to a variable return from the investment, (2) the investor has the opportunity to influence the return through its opportunity to govern the company, and (3) there is a link between the return that is received and the opportunity to govern the company. By influence is meant the rights that allow the investor to govern the relevant business, that is, the business which significantly influences the company's return. Business combinations are accounted for using the purchase method. Subsidiaries' financial statements, which are prepared in accordance with the Company's accounting policies, are included in the consolidated accounts from the point of acquisition to the date when control ceases.

**Joint ventures**

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. Joint ventures are reported in accordance with the equity method.

**Associated companies**

Associated companies are companies in which Vattenfall NV has a significant – but not controlling – influence with other owners over their operational and financial management, usually through shareholdings corresponding to between 20% and 50% of the votes. From the point at which the significant influence is acquired, participations in associated companies are reported in the consolidated accounts in accordance with the equity method.

**Transactions that are eliminated upon consolidation**

Intragroup receivables and liabilities, income and expenses, as well as gains or losses arising from intragroup transactions between Vattenfall NV companies, are eliminated in their entirety when preparing the consolidated accounts. Gains arising from transactions with associated companies and joint ventures are eliminated to an extent that corresponds to Vattenfall NV's holding in the company. Losses are eliminated in the same manner as gains but are treated as an indicator of impairment.

**Foreign currencies**

**Transactions in foreign currencies**

Transactions in foreign currencies are translated to the functional currency at the exchange rate on the day of the transaction. On the balance sheet date, monetary assets and liabilities in foreign currencies are translated to the functional currency at the exchange rate applicable on that day. Exchange rate differences arising from translation of currencies are reported in the income statement. Operationally derived exchange gains and losses are shown under Other operating income and Other operating expenses, respectively. Financially derived exchange gains and losses are shown as Financial income and Financial expenses, respectively.

**Important estimations and assessments in the preparation of the financial statements**

Preparation of the financial statements in accordance with IFRS requires the Company's management board to make estimations and assessments as well as to make assumptions that affect application of the accounting policies and the reported amounts of assets, liabilities, income and expenses.

These estimations and assessments are based on historic experience and other factors that seem reasonable under current conditions. The results of these estimations and assessments are then used to establish the reported values of assets and liabilities that are not otherwise clearly documented from other sources. The final outcome may deviate from the results of these estimations and assessments. The estimations and assessments are revised on a regular basis. The effects of changes in estimations are reported in the period in which the changes were made if the changes affected this period only or in the period the changes were made and future periods if the changes affect both the current period and future periods.

Important estimations and assessments are described further in the following notes to the consolidated accounts:

- Note 6 Impairment losses and reversed impairment losses
- Note 10 Income taxes
- Note 12 Intangible assets
- Note 13 Property, plant and equipment
- Note 23 Provisions
- Note 27 Financial Instruments – valuation of level 3 derivatives

**Influences of market volatilities**

A historical high price volatility for electricity and fuels in 2021 led to an increased credit default and fulfilment risk from Vattenfall's trading partners.This volatility is expected to continue due to the Russian invasion of Ukraine which started in 2022, even though the effects cannot yet be estimated. In the light of these uncertainties, special attention has been paid to the estimation of expected credit losses for financial instruments. Risk mitigation measures such as existing collateral and security agreements were hereby taken into account. For a description of risks, uncertainties and risk management, please refer to Note 28, Financial risks.

## Note 3 Acquired and divested operations

**Acquired operations**

**Acquisitions in 2021**

On the 1st of September 2021 Vattenfall NV acquired 51% of the shares in ARX Groep Holding B.V. The total purchase price for the shares was EUR 1.0 million. ARX Groep Holding B.V. consists of a growing team of specialists who bring suppliers, real estate specialists and consumers together by creating digital convenience.

On the 30th of November 2021 Vattenfall NV acquired 100% of the shares in LINKD B.V. The total purchase price for the shares was EUR 5.2 million. LINKD B.V. is a service provider for housing market professionals. They offer tools to unburden customers during a hectic period.

**Acquisitions in 2020**

In 2020, no acquisitions of operations were made by Vattenfall NV.

**Divested operations**

**Divestments in 2021**

On the 24th of June 2021, Vattenfall NV sold shares in the following companies:

- Nehalennia 5 B.V. (100% of the shares)
- Nehalennia 6 B.V. (100% of the shares)
- Nehalennia 11 B.V. (100% of the shares)
- Nehalennia 12 B.V. (100% of the shares)
- Vattenfall Hollandse Kust Zuid 1&2 Beheer B.V. (49% of the shares)
- Vattenfall Hollandse Kust Zuid 3&4 Beheer B.V. (49% of the shares)
- Vattenfall Hollandse Kust Zuid 1&2 C.V. (49.5% of the shares)
- Vattenfall Hollandse Kust Zuid 3&4 C.V. (49.5% of the shares)

The total consideration received amounts to EUR 404.1 million.

On 29th of March 2021, Vattenfall NV sold the shares in NoordzeeWind C.V. The consideration paid amounts to EUR 12.5 million. On the 31st of December 2021, Vattenfall NV sold the shares in Ingenieursbureau Ebatech B.V. The consideration received amounts to EUR 3.6 million. In addition, a number of small companies within business area Wind have been sold during the period, the total consideration received amounts to EUR 6.2 million.

**Divestments in 2020**

On the 1st of February 2020, Vattenfall NV sold the shares in Zonnepark Gasselternijveen B.V. The consideration received amounts to EUR 2.3 million. On 1st of July 2020, Vattenfall NV sold the shares in Vliegasunie B.V., a supplier of mineral raw materials from electricity production. The consideration received amounts to EUR 0.9 million.

## Note 4 Net sales

**Accounting policy**

Net sales include revenue from sales and distribution of electricity and heat, sales of gas, energy trading and other revenues such as service and consulting assignments and connection fees. Materially all revenues are generated in the Netherlands.

Vattenfall NV offers customers discounts and bonuses on sale of both electricity, gas and heat through various campaigns. The Company recognises discounts and bonuses when the performance obligation to the customer is satisfied and are recognised over the contract term.

Various sales channels are used to sell Vattenfall NV's products which gives rise to different types of costs associated with sales activities. These costs to obtain a contract related to revenues from contracts with customers

are shown under Note 12, Intangible assets. Capitalisation of costs to obtain is either based on a portfolio approach (BtC) or a contract-by-contract approach (BtB). BtC applied practical expedients by which all contracts with a duration of more than 1 year are deemed one portfolio and costs to obtain a contract associated to 1-year contracts are expensed when incurred. The amortisation schedule depends on the contract duration by taking into consideration the probability that customers terminate their contract prior to the end of the contractually agreed period.

**Sales and distribution of electricity, heat and gas**
Sales of electricity, heat and gas and related distribution are recognised as revenue at the time of delivery, excluding value-added tax and excise taxes. Depending on the system for metering of consumption, Vattenfall NV recognises revenues either based on expected consumption, with a reconciliation when the readout takes place, or based on actual consumption and adjusted for back-delivery.

Vattenfall has entered into long-term power purchase agreements which are supplied to the customers through physical delivery of electricity. The performance obligation is fulfilled over time and the income is reported within sales from electricity at delivery. These agreements do not contain derivatives nor are they to be treated as lease agreements.

**Develop-to-sell projects**
Vattenfall constructs Wind and Solar projects for the purpose of selling them. The assets under construction are accounted for as inventory and the sales proceeds are recognised as revenue in accordance with IFRS 15. Depending on the contract details, revenue is being recognised as the performance obligation is satisfied at a point of time or over time.
Most material develop-to-sell projects sold are listed below:

- Windpark Wieringermeer Extension B.V. (EUR 303 million)
- Other (EUR 2 million)

**Connection fees**
Heat is responsible for physical connections of the Heating networks to houses and buildings. The fee for the physical connection is paid by the customer when the connection is established. Revenue from connection fees is recognised over time since Vattenfall NV handles maintenance and repairs of the assets used in the physical connection, which is satisfied over time. The basis for revenue recognition of connection fees is the useful life of the underlying assets.

Vattenfall NV recognises revenues from contracts with customers and other revenues through profit or loss.

| | 2021 | 2020 |
|---|---|---|
| Sales of electricity | 1,336 | 1,043 |
| Sales of gas | 1,131 | 1,001 |
| Sale of heat and steam | 196 | 173 |
| Sales income Develop-to-Sell projects | 305 | – |
| Sales / lease of solar and battery assets | 175 | 164 |
| Service and consulting | 93 | 114 |
| Other revenues | 85 | 76 |
| **Total revenues** | **3,321** | **2,571** |

Revenue from contracts with customers is recognised when the performance obligation is satisfied. The Company applies the practical expedient not to disclose information for performance obligations if the performance obligation is part of a contract that has an original duration of one year or less.

The payment recognised may not match the revenue for the period, which results in the recognition of contract assets and contract liabilities. The Company applies the practical expedient not to adjust for the effects of a significant financing component if it is expected that, at inception, the period between satisfying the performance obligation and the payment will be one year or less.

| Contract balances | 2021 | 2020 |
|---|---|---|
| Contract assets | 5 | 5 |
| – of which, released as cost from opening balance during the year | 12 | 7 |
| Contract liabilities | 257 | 227 |
| – of which, released as revenue from opening balance during the year | – | 9 |

Contract liabilities relate to cashbacks, obligations resulting from loyalty programs and construction contributions received. Construction contributions received are mainly attributable to district heating grids. The amortisation periods of these received amounts are equal to the depreciation periods of the underlying assets with a maximum of 30 years.

## Note 5 Cost of purchases

| | 2021 | 2020 |
|---|---|---|
| Cost of purchases | 1,741 | 1,544 |
| Addition to the provision for onerous contracts | 2,215 | – |
| Change in fair value of derivatives | -2,004 | -329 |
| **Total cost of purchases** | **1,952** | **1,215** |

Total cost of purchases includes the fair value movements of commodity derivatives and the costs in relation to the onerous contracts provision. The EUR -2,004 million (-329) represents the net effect of accounting for derivatives at fair value through profit or loss.

## Note 6 Impairment losses and reversed impairment losses

### Accounting policy

#### General principles

Assessments are made throughout the year for any indication that an asset may have decreased in value. If there is an indication of this kind, the asset's recoverable amount is estimated. For intangible assets that are still not ready for use, the recoverable amount is calculated at least annually or as soon there is an indication that an asset has decreased in value.

If the independent cash flow for an individual asset cannot be established for the assessment of any need for impairment, the assets must be grouped at the lowest level possible to identify the essentially independent cash flow (a so-called cash-generating unit). An impairment loss is reported when an asset or cash-generating unit's reported value exceeds the recoverable amount. Any impairment loss is recognised in profit or loss. Impairment of assets attributable to a cash-generating unit is allocated primarily to goodwill. Thereafter, a proportional impairment loss is conducted of other assets that are part of the unit.

#### Calculation of the recoverable amount

The recoverable amount is the higher of fair value less costs to sell and value in use. When calculating value in use, the future cash flow is estimated and discounted by a discounting rate that takes into consideration the risk-free interest rate and the risk associated with the specific asset.

#### Reversal of impairment losses

Impairment of goodwill is never reversed. Impairment of other assets is reversed if a significant and lasting change has occurred in the assumptions that formed the basis for the calculation of the recoverable amount. An impairment loss is reversed only if the asset's carrying amount after reversal does not exceed the carrying amount that the asset would have had if the impairment loss had not been recognised.

### Financial information

#### Process for impairment testing

To ensure that the best available information is used for impairment testing and that that information represents management's best estimate, the basis for all impairment calculations is data used by management for strategic decision-making. Part of this information are Cash flow projections and NPV calculations. Cash flows of the asset clusters Condensing, Heat, Customers & Solutions and the separate windfarms within Wind are calculated on a yearly basis in the asset book process. Those cash flow estimates form the basis of the impairment test. The main assumptions that executive management used in calculating projections of future cash flows in cash-generating units with finite useful lives are based on forecasts of the useful life of the respective assets. The projected cash flows are based on market prices and on Vattenfall NV's long-term market outlook. The calculated revenues in these forecasts are based on Vattenfall NV's long-term pricing projections, which are the result of a large number of simulations of the prices of oil, gas, electricity and $CO_2$ emission allowances in the relevant commodity markets.

The long-term market outlook is based on internal and external input parameters and is benchmarked against external price projections. Based on the price assumptions, the dispatch of the power plants is calculated, taking technical, economic and legal constraints into consideration. Technical flexibility of the assets, that is the ability to adapt generation to changes in spot market prices, has been taken into account as well. Cash flow projections of other cash-generating units are based on the business plan for the coming five years, after which their terminal value is taken into account, based on a growth factor of 0%-0.5% (0%-0.5%). If the final year of the business plan horizon does not represent a reasonable basis for assessing the long-term value, an extended forecast may be required to arrive at a steady-state earnings situation on which to calculate the terminal value.

Future cash flows have been discounted to value in use using the following discount rates:

| | 2021 | | 2020 | |
|---|---|---|---|---|
| | **Before tax** | **After tax** | **Before tax** | **After tax** |
| Discount rate Condensing | 8.1% | 6.5% | 8.0% | 6.8% |
| Discount rate Heat | 5.7% | 4.4% | 5.6% | 4.5% |
| Discount rate Wind Onshore | 6.6% | 4.4% | 6.8% | 4.4% |
| Discount rate Wind Offshore | 6.8% | 4.7% | 6.1% | 2.5% |
| Discount rate Customers & Solutions | 7.7% | 4.9% | 7.4% | 5.2% |

The discount rate varies for the various asset classes, depending on their risk. When setting the discount rate, consideration has been given to the extent to which the various asset classes are exposed to changes in the wholesale prices of electricity, fuel, $CO_2$ emission rights and regulatory risks. An increase in the discount rate by 0.5 percentage points would decrease the estimated value in use for the cash-generating unit Condensing by approximately EUR 95 million (111). On the other hand, a decrease in the discount rate by 0.5 percentage points would increase the estimated value in use for the cash-generating unit Condensing by approximately EUR 115 million (135). This would not give rise to an impairment.

Electricity prices and margins for generation assets represent another major value driver. Electricity prices are relevant for non-subsidized wind parks. The most important production margin is the "clean spark spread" for gas-fired power plants. This spread includes electricity prices as well as the respective costs for fuel and $CO_2$ emission allowances to produce the electricity, considering the fuel type and efficiency factors. Based on the assumptions used in the impairment testing, a decrease in future electricity prices by 5%, with unchanged costs for fuel and $CO_2$ emission allowances, would lead to a decrease in the value of gas fired assets of 33% or approximately EUR 288 million. And a reduction of 5% in future margin would decrease the estimated value in use for the cash-generating unit Condensing segment by 10% or approximately EUR 135 million. This would not lead to any impairment. For the non-subsidized wind parks Hollandse Kust Zuid 1&2 en Hollandse Kust Zuid 3&4, the corresponding figure is 18% or approximately EUR 99 million. This would not lead to any impairment.

Vattenfall has performed impairment testing by calculating the recoverable amount of the cash-generating units. The structure of the cash-generating units, which represent the smallest group of identifiable assets that generate continuous cash inflows that are largely independent of other assets or groups of assets, is based on the Company's Business Area structure. During 2021 a split has been implemented relating to cash-generating unit Customers & Solutions, whereby E-mobility has been separated from Customers & Solutions. The main cash-generating units are part of the business areas Condensing, Customers & Solutions, E-mobility and Wind.

The Business area Condensing contains 4 gas-fired plants, necessary equipment and infrastructure. Some of these plants are for district heating in addition to electricity.

The Business area Customers & Solutions operates Vattenfall's downstream retail activities as well as other decentralised, but still consumer-oriented businesses. It is a margin business subject to churn and counterparty risk. The diverse portfolio is structured to minimise single commodity exposure by offering different commodities to different types of customers.

The Business area E-mobility is responsible for the sale of electric vehicle charging solutions at people's homes, business locations and in large cities in markets where Vattenfall NV is active.

Ever since Vattenfall has been focusing its investment strategy on generation of fossil-free energy, it has led to continuous growth in BA Wind. Vattenfall NV operates approximately 10 wind farms. For a large amount of future Wind assets investments, decisions have already been taken or the projects are close to commissioning which will lead to an even further growth in the near future. The continued growth of the Business Area has led to a reorganization, creating three sub-Business Units in BA Wind, covering Offshore, Onshore and Solar & Batteries. Two major projects in Offshore are Vattenfall Hollandse Kust Zuid 1&2 and Hollandse Kust Zuid 3&4.

Previously recognised impairment losses amounting to EUR 8.4 million were reversed in the income statement in 2021. This relates to certain types of rental boilers which were impaired at Feenstra N.V. in 2014. Since analysis has shown that there has been sufficient headroom for more than 2 years, Vattenfall NV decided to reverse the impairment in line with Vattenfall NV's policies.

**Impairment losses 2021**

Impairment losses charged against operating result in 2021 amount to EUR 7 million. The impairment relates to B.V. Nederlands Elektriciteits Administratiekantoor. Refer to Note 15, Participations in associated companies and joint ventures.

**Impairment losses 2020**

Impairment losses charged against operating result in 2020 are nil.

## Note 7 Other external expenses

| | 2021 | 2020 |
|---|---|---|
| Purchased services | 62 | 60 |
| IT expenses | 21 | 18 |
| Consulting expenses | 71 | 71 |
| Non-capitalised lease expenses | 12 | 12 |
| Marketing and selling expenses | 32 | 33 |
| Facility service costs | 6 | 6 |
| Miscellaneous [1] | 97 | 92 |
| **Total** | **301** | **292** |

1) Miscellaneous contains a.o. the following cost categories: insurance, legal, banking, education and training, office, travel, contributions and branche fees.

## Note 8 Financial income

**Accounting policy**

Interest income is reported as it is earned. The calculation is made on the basis of the return on underlying assets in accordance with the effective interest method. Dividend income is reported when the right to receive payment is established. Interest income is adjusted for transaction costs and any rebates, premiums and other differences between the original value of the receivable and the amount received when due.

**Financial information**

| | 2021 | 2020 |
|---|---|---|
| Interest income | 1 | 2 |
| Exchange rate differences, net | 1 | – |
| **Total** | **2** | **2** |

## Note 9 Financial expenses

### Accounting policy

For calculation of interest effects attributable to provisions, discount rates have been used, see Note 23 to the consolidated accounts, Provisions, for the discount rates used. Issue costs and similar direct transaction costs for raising loans are distributed over the term of the loan in accordance with the effective interest method. Borrowing costs directly attributable to investment projects in non-current assets which take a substantial period of time to complete are not reported as a financial expense but are included in the cost of the non-current asset during the construction period. Leasing fees pertaining to finance leases are distributed between interest expense and amortisation of the outstanding debt. Interest expenses are distributed over the leasing period so that each accounting period is charged in the amount corresponding to a fixed interest rate for the reported debt in each period. Variable fees are carried as an expense in the period in which they arise.

### Financial information

| | 2021 | 2020 |
|---|---|---|
| Interest expenses attributable to loans | 5 | 4 |
| Exchange rate differences, net | -1 | – |
| Capital losses from divestments of shares and participations | 1 | – |
| **Total** | **5** | **4** |

Interest expenses, attributable to lease liabilities, amount to EUR 2 million (2) and are included in interest expenses attributable to loans.

## Note 10 Income taxes

### Accounting policy

Income taxes comprise current tax and deferred tax. Income tax is reported in the income statement except when the underlying transaction is reported in Other comprehensive income or in Equity, whereby also the associated tax effect is reported in Other comprehensive income and Equity, respectively. Current tax includes the expected tax payable and receivable on the taxable income for the current year, using tax rates enacted or substantively enacted at reporting date, as well as (any adjustments to) tax payable and receivable with respect to previous years.

Deferred tax is recognised using the liability method on temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred taxes are not recognised for the initial recognition of goodwill, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences related to investments in subsidiaries to the extent that the entity is able to control the timing of the reversal of the differences and the differences will probably not reverse in the foreseeable future. The foreseeable future is defined as a period of 12 months from the end of the reporting period. However, this period may be extended depending on the facts and circumstances (including management intent). Deferred tax assets are recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized.

Measurement of deferred tax assets and liabilities is based upon the enacted or substantively enacted tax rates expected to apply to taxable income in the years in which temporary differences are expected to be reversed.

### Important estimations and assessments

Deferred tax assets are recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised.

The recognition of deferred tax assets is assessed annually. This assessment is mainly based on the business plan for the coming five years and on the assumption that future earnings after five years will be consistent with the business plan. For the assessment the enacted or substantively enacted tax rates and the applicable tax law at reporting date are considered.

Deferred tax assets related to unused tax losses, tax credits and deductible temporary differences are derecognised when it is no longer considered probable that future taxable profits will be available against which they can be utilised.

The deferred tax positions for property plant and equipment, inventories and intangible assets (including surplus values) mainly represent the differences between the carrying amount and the tax base of the power-generating facilities, develop-to-sell projects and IFRS 16 Right-of-use-assets, measured at the enacted or substantively enacted tax rates expected to apply to taxable income in which temporary differences are expected to be reversed. The deferred tax position in respect of derivatives represents the temporary differences in valuation between the carrying amount and tax base. The deferred tax position for liabilities represents mainly the difference between the carrying amount and tax base of IFRS 16 related interest-bearing liabilities and other liabilities. The deferred tax position for provisions mainly represents the difference between the carrying amount and tax base of the provision for onerous contracts and of the provision for dismantling. The net deferred tax position changed with EUR 53 million during 2021, mainly caused by the change in non-settled derivatives and the change in the provision for onerous contracts.

## Financial information

### Break down of the reported income tax

| | 2021 | 2020 |
|---|---|---|
| Current tax expense (-)/ tax income (+) | -171 | -43 |
| Adjustment of current tax expense (-) / tax income (+) for prior periods | 3 | 1 |
| Deferred tax expense (-)/ tax income (+) | 54 | -71 |
| **Total income tax** | **-114** | **-113** |

### The difference between the nominal Dutch tax rate and the effective tax rate is explained as follows:

| | 2021 | | 2020 | |
|---|---|---|---|---|
| | % | | % | |
| Result before tax | | 534 | | 556 |
| Dutch income tax rate at 31 December | 25.0 | -133 | 25.0 | -139 |
| Difference in tax rate in foreign operations | 0.4 | -2 | 0.2 | -1 |
| Tax adjustments for previous periods | -0.8 | 4 | -0.2 | 1 |
| Non-taxable income | -1.9 | 10 | -0.7 | 4 |
| Revaluation of previously derecognised losses and other temporary differences | 0.2 | -1 | 0.0 | – |
| Non-deductible expenses | 0.2 | -1 | 0.0 | – |
| Energy investment allowance | -1.0 | 5 | -0.5 | 3 |
| Changes in tax rates | -0.8 | 4 | -3.2 | 18 |
| Other | 0.0 | – | -0.2 | 1 |
| **Effective tax rate** | **21.3** | **-114** | **20.4** | **-113** |

### Balance sheet reconciliation of current tax

| | 2021 | 2020 |
|---|---|---|
| Balance brought forward net asset (+)/ net liability (-) | -13 | 17 |
| Change via income statement | -168 | -43 |
| Taxes paid, net | 94 | 13 |
| **Balance carried forward net asset (+)/ net liability (-)** | **-87** | **-13** |

### Breakdown of the deferred tax

| | 2021 | 2020 |
|---|---|---|
| Property, plant and equipment | 123 | 128 |
| Inventories | -6 | – |
| Intangible assets | -10 | -13 |
| Non-settled derivatives | -562 | -48 |
| Provisions | 580 | 13 |
| Liabilities | 50 | 43 |
| Other | – | -1 |
| **Total** | **175** | **122** |

### Unrecognised deferred tax assets

Unrecognised deferred tax assets relate to the temporary differences in the valuation of tax losses carried forward and amount to EUR 0.3 million (0.4). These tax losses carried forward relate to losses in the Netherlands where it is not considered probable that sufficient taxable profit will be available in the foreseeable future to utilise the losses carried forward. Per 1 January 2022, a tax loss can be carried forward indefinitely. To the extent that the taxable profit for the year is EUR 1 million or less, that taxable profit can be used in full to set off a loss of previous years. To the extent that the taxable profit for a year exceeds EUR 1 million, only 50% of that taxable profit in excess of EUR 1 million can be used to offset losses of previous years.

## Note 11 Leasing

### Accounting policy

**Leased assets**

A right-of-use asset along with a lease liability are recognised on the balance sheet for all lease contracts except for leases for which the underlying asset is of low value or if the contract duration is 12 months or less. For these types of lease contracts the practical expedient is applied whereby costs incurred are expensed directly.

The right-of-use 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 cost incurred and an estimate of costs to dismantle and remove the underlying asset.

The right-of-use 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, while the leasing payments are reported as interest and amortisation of the debts.

The lease liability is initially measured at the present value of the lease payments outstanding at the commencement date, discounted using Vattenfall NV's incremental borrowing rate, which is updated by the Treasury department twice a year. After the commencement date, the amount of lease liabilities increases to reflect the accretion of interest and is reduced for the lease payments made. The commitment to pay future leasing charges is reported as a non-current or current liability.

Lease payments included in the measurement of the lease liability comprise:

- Fixed payments.
- Variable lease payments that depend on an index or rate.
- Amounts expected to be payable under a residual value guarantee.
- The exercise price under a purchase option that Vattenfall NV is reasonably certain to exercise.
- Lease payments in an optional renewal period, if Vattenfall NV is reasonably certain to exercise an extension option.
- Penalties for early termination of a lease unless Vattenfall NV is reasonably certain not to terminate early.

**Assets leased out**

Assets that are leased out under finance leases are not reported as property, plant and equipment, since the risks associated with ownership are transferred to the lessee. Instead, a financial receivable is entered for the future minimum lease payments.

Assets leased out under operating leases are reported as property, plant and equipment and are subject to depreciation.

### Leased property, plant and equipment

**As a lessee**

Vattenfall NV leases different assets, including but not limited to land, office buildings, vehicles and other. More detailed information on leases for which the Company is a lessee is presented on the next page.

| | 2021 | | | | |
|---|---|---|---|---|---|
| **Right-of-use assets** | **Land** | **Buildings** | **Vehicles** | **Other** | **Total** |
| Balance brought forward | 150 | 19 | 13 | 17 | **199** |
| Depreciation for the year | -5 | -7 | -2 | -19 | **-33** |
| Additions to the right-of-use asset during the year | 15 | 1 | 5 | 50 | **71** |
| Other changes to the right-of-use asset during the year | -37 | 15 | -5 | 2 | **-25** |
| **Balance carried forward** | **123** | **28** | **11** | **50** | **212** |

| | 2020 | | | | |
|---|---|---|---|---|---|
| **Right-of-use-assets** | **Land** | **Buildings** | **Vehicles** | **Other** | **Total** |
| Balance as of 1 January | 19 | 20 | 9 | 30 | **78** |
| Depreciation for the year | -4 | -8 | -5 | 7 | **-10** |
| Additions to the right-of-use asset during the year | 135 | 1 | 7 | – | **143** |
| Other changes to the right-of-use asset during the year | – | 6 | 2 | -20 | **-12** |
| **Balance carried forward** | **150** | **19** | **13** | **17** | **199** |

| Lease liability development | 2021 | 2020 |
|---|---|---|
| Balance as of 1 January | 204 | 83 |
| Additions to the liability | 73 | 143 |
| Repayment of the liability | -41 | -35 |
| Other changes | -20 | 13 |
| **Balance carried forward** | **216** | **204** |

Total leasing related cash-outflows amounted to EUR 43 million in 2021 (37) of which EUR 2 million (2) is related to interest expenses.

| Maturity analysis - contractual undiscounted cash flows | |
|---|---|
| < 1 year | 36 |
| 1 - 5 years | 90 |
| > 5 years | 112 |
| **Total as of 31 December 2021** | **238** |

Lease payments amounting to EUR 12 million (12) have not been accounted for as right-of-use assets as a result of the practical expedients relating to short-term contracts and low value items or because they related to variable components of contracts.

### Leasing revenues

Leasing revenues and future receivables relate mainly to leases of production facilities and heating equipment to consumers. On 31 December 2021, cost of assets reported under operating leases amounted to EUR 526 million (527). Accumulated depreciation amounted to EUR 393 million (367) and accumulated impairment losses amounted to EUR 9 million (19).

Future leasing related cash-inflows for this type of facility are broken down as follows:

| *As of 31 December 2021* | Operating leasing |
|---|---|
| 2022 | 96 |
| 2023 | 93 |
| 2024 | 90 |
| 2025 | 87 |
| 2026 | 5 |
| 2027 and beyond | 8 |
| **Total** | **379** |

| *As of 31 December 2020* | Operating leasing |
|---|---|
| 2021 | 101 |
| 2022 | 98 |
| 2023 | 95 |
| 2024 | 92 |
| 2025 | 69 |
| 2026 and beyond | 17 |
| **Total** | **472** |

The district heating grids belonging to Alliander N.V. which had been placed within a cross-border lease, were subleased to Vattenfall Warmte N.V., which is part of Vattenfall NV, as of mid-2008 until mid-2025. This was done in connection with the implementation of the Independent Network Operation Act (WON) and preparations for the unbundling of our former shareholder N.V. Nuon. The strip risk (the part of the termination value, i.e. the possible compensation payable by Vattenfall NV to Alliander N.V. in the event of premature termination of the transaction, that cannot be settled from the deposits and investments held for this purpose) related to these subleased assets is borne by Vattenfall NV and is nil as of 31 December, 2021 (12). As these subleases are still operational, no liability for this strip risk is included on the balance sheet.

## Note 12 Intangible assets

### Accounting policy

#### Intangible assets

Intangible assets such as concessions, patents, licences, trademarks and similar rights as well as renting rights are reported at cost less accumulated amortisation and impairment losses.

#### Principles for amortisation

Amortisation of intangible assets other than goodwill is reported on a straight-line basis in the income statement over the estimated useful life of the asset, provided the useful life is not indefinite.

### Important estimations and assessments

Intangible assets are tested for impairment in accordance with the accounting policies described in Note 6 to the consolidated accounts, Impairment losses and reversed impairment losses. The recoverable amount for cash-generating units is determined by calculating the value in use or fair value less costs to sell. For these calculations, certain estimations must be made regarding future cash flows along with other adequate assumptions regarding the required rate of return, for example.

## Financial information

| | 2021 | | |
|---|---|---|---|
| | Concessions, customer lists and similar rights with finite useful lives | Cost to obtain a contract | Total |
| **Cost** | | | |
| Cost brought forward | 230 | 81 | **311** |
| Acquired companies | 9 | – | **9** |
| Investments | 5 | 10 | **15** |
| Transfer from development projects in progress | 14 | – | **14** |
| Divestments/disposals | – | -17 | **-17** |
| **Accumulated cost carried forward** | **258** | **74** | **332** |
| **Amortisation** | | | |
| Amortisation brought forward | -66 | -49 | **-115** |
| Amortisation for the year | -18 | -18 | **-36** |
| Divestments/disposals | -14 | 13 | **-1** |
| **Accumulated amortisation carried forward** | **-98** | **-54** | **-152** |
| **Impairment losses** | | | |
| Impairment losses brought forward | -52 | -4 | **-56** |
| Divestments/disposals | 11 | 4 | **15** |
| **Accumulated impairment losses carried forward** | **-41** | **–** | **-41** |
| **Carrying amount carried forward** | **119** | **20** | **139** |

| | 2020 | | |
|---|---|---|---|
| | Concessions, customer lists and similar rights with finite useful lives | Cost to obtain a contract | Total |
| **Cost** | | | |
| Cost brought forward | 334 | 77 | **411** |
| Investments | 4 | 15 | **19** |
| Divestments/disposals | -1 | -11 | **-12** |
| Reclassifications | -107[1] | – | **-107** |
| **Accumulated cost carried forward** | **230** | **81** | **311** |
| **Amortisation** | | | |
| Amortisation brought forward | -51 | -38 | **-89** |
| Amortisation for the year | -16 | -22 | **-38** |
| Divestments/disposals | 1 | 11 | **12** |
| **Accumulated amortisation carried forward** | **-66** | **-49** | **-115** |
| **Impairment losses** | | | |
| Impairment losses brought forward | -52 | -3 | **-55** |
| Impairment losses for the year | – | -1 | **-1** |
| **Accumulated impairment losses carried forward** | **-52** | **-4** | **-56** |
| **Carrying amount carried forward** | **112** | **28** | **140** |

1) Reclassifications relate to assets being classified as develop-to-sell assets. Refer to Note 16, Inventories.

## Estimated useful life

| | |
|---|---|
| Concessions, customer lists and similar rights | 1-63 years |
| Costs to obtain a contract | 2-3 years |

Estimated useful lives are unchanged compared with the preceding year.

## Note 13 Property, plant and equipment

### Accounting policy

Property, plant and equipment are reported as assets on the balance sheet if it is likely that there will be future financial benefits for the Company and the cost of the asset can be calculated in a reliable manner. Cost includes the purchase price and costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Examples of directly attributable expenses included in cost are delivery and handling, installation, land registration and consulting services. Borrowing costs directly attributable to investment projects in property, plant and equipment, which take a substantial period of time to complete, are included in the cost of the asset during the construction period.

#### Subsequent costs

Subsequent costs for property, plant and equipment are only added to the acquisition cost if it is likely that there will be future financial benefits associated with the asset for the Company and the cost can be calculated in a reliable manner. All other subsequent costs are reported as expenses in the period when they arise. What is decisive for the assessment when a subsequent cost is added to the acquisition cost is whether the cost concerns the replacement of identified components, or parts of them, whereby such costs are capitalised. Also, in cases where new components are created, the cost is added to the cost of the asset. Any undepreciated reported values of replaced components, or parts of components, are retired and carried as an expense in connection with the replacement. Repair and maintenance costs are expensed as incurred.

#### Depreciation principles

Depreciation is reported on a straight-line basis in the income statement over the estimated useful life of the asset. The Company applies component depreciation, which means that the components' estimated useful life provides the basis for the straight-line depreciation. Estimated useful life is described below in this note. Assessments of the residual value and useful life of an asset are conducted annually. Land and water rights are not subject to depreciation.

### Important estimations and assessments

Property, plant and equipment are tested for impairment in accordance with the accounting policies described in Note 6 to the consolidated accounts, Impairment losses and reversed impairment losses. The recoverable amount for cash-generating units is determined by calculating the value in use or fair value less costs to sell. For these calculations, certain estimations must be made regarding future cash flows along with other adequate assumptions regarding the required rate of return, for example.

### Estimated useful life

| | |
|---|---|
| Hydro power installations | 5-40 years |
| Combined heat and power installations | 5-40 years |
| Wind power installations | 10-25 years |
| Solar power installations | 5-25 years |
| Office and warehouse buildings and workshops | 25-50 years |
| Office equipment | 5-10 years |

Estimated useful lives are unchanged compared with the preceding year.

## Property, plant & equipment

| | 2021 | | | | |
|---|---|---|---|---|---|
| | Land and buildings[2] | Plant and machinery and other technical installations | Equipment, tools, fixtures and fittings | Construction in progress | Total |
| **Cost** | | | | | |
| Cost brought forward[3] | 412 | 5,961 | 384 | 416 | **7,173** |
| Investments[4] | 18 | 12 | 68 | 617 | **715** |
| Capitalised/reversed future payments for decommissioning, restoration | 7 | -1 | – | – | **6** |
| Transfer from construction in progress | – | 231 | 1 | -246 | **-14** |
| Divestments/disposals[1] | -48 | -23 | -59 | – | **-130** |
| Other reclassifications | 22 | -7 | 4 | -4 | **15** |
| Divested companies | – | -30 | -8 | – | **-38** |
| **Accumulated cost carried forward** | **411** | **6,143** | **390** | **783** | **7,727** |
| **Depreciation** | | | | | |
| Depreciation brought forward | -83 | -1,882 | -200 | – | **-2,165** |
| Depreciation for the year | -19 | -126 | -40 | – | **-185** |
| Divestments/disposals[1] | 6 | 17 | 49 | – | **72** |
| Divested companies | – | 27 | 4 | – | **31** |
| **Accumulated depreciation carried forward** | **-96** | **-1,964** | **-187** | **–** | **-2,247** |
| **Impairment losses** | | | | | |
| Impairment losses brought forward | -131 | -2,441 | -38 | – | **-2,610** |
| Reversed impairment losses for the year | – | – | 8 | – | **8** |
| Divestments/disposals[1] | – | – | 8 | – | **8** |
| Other reclassifications | – | – | -3 | – | **-3** |
| **Accumulated impairment losses carried forward** | **-131** | **-2,441** | **-25** | **–** | **-2,597** |
| **Carrying amount carried forward** | **184** | **1,738** | **178** | **783** | **2,883** |

| | 2020 | | | | |
|---|---|---|---|---|---|
| | Land and buildings[2] | Plant and machinery and other technical installations | Equipment, tools, fixtures and fittings | Construction in progress | Total |
| **Cost** | | | | | |
| Cost brought forward[3] | 113 | 5,161 | 533 | 391 | **6,198** |
| Investments[4] | 136 | 53 | 13 | 345 | **547** |
| Capitalised/reversed future payments for decommissioning, restoration | 2 | 10 | – | – | **12** |
| Transfer from construction in progress | 1 | 241 | 1 | -243 | **–** |
| Divestments/disposals | -2 | -74 | -166 | – | **-242** |
| Other reclassifications | 6 | – | 3 | -77[5] | **-68** |
| Assets held for sale | – | 41 | – | – | **41** |
| **Accumulated cost carried forward** | **256** | **5,432** | **384** | **416** | **6,488** |
| **Depreciation** | | | | | |
| Depreciation brought forward | -30 | -1,519 | -326 | – | **-1,875** |
| Depreciation for the year | -14 | -115 | -42 | – | **-171** |
| Divestments/disposals | 2 | 70 | 163 | – | **235** |
| Other reclassifications | – | – | 6 | – | **6** |
| Assets held for sale | – | -27 | – | – | **-27** |
| **Accumulated depreciation carried forward** | **-42** | **-1,591** | **-199** | **–** | **-1,832** |
| **Impairment losses** | | | | | |
| Impairment losses brought forward | -14 | -2,195 | -38 | – | **-2,247** |
| Assets held for sale | – | -11 | – | – | **-11** |
| **Accumulated impairment losses carried forward** | **-14** | **-2,206** | **-38** | **–** | **-2,258** |
| **Carrying amount carried forward** | **200** | **1,635** | **147** | **416** | **2,398** |

1) Divestments and disposals consist of assets belonging to divested windfarms and (fully) depreciated and disposed assets.
2) Cost for land and buildings includes cost of land rights amounting to EUR 38 million (1), which are not subject to depreciation.
3) Government grants received, balance brought forward, amount to EUR 63 million (66).
4) Government grants received during the year amounted to EUR 0 million (1).
5) EUR 68 million in reclassifications relate to assets being classified as develop-to-sell assets. Refer to Note 16, Inventories.

## Note 14 Shares and participations owned by Vattenfall NV and other group companies

The following list includes the significant subsidiaries and the share that Vattenfall NV holds in these entities.

**Shares and participations owned by Vattenfall NV**

| | Registered office | Participation in % 2021 | Participation in % 2020 |
|---|---|---|---|
| **Netherlands** | | | |
| Vattenfall Customers & Solutions Netherlands N.V.[1] | Amsterdam | 100 | 100 |
| Vattenfall Duurzame Energie N.V.[1] | Amsterdam | 100 | 100 |
| Vattenfall Eemshaven B.V.[1] | Amsterdam | 100 | 100 |
| Vattenfall Energy Sourcing Netherlands N.V.[1] | Amsterdam | 100 | 100 |
| Vattenfall Energy Trading Netherlands N.V.[1] | Amsterdam | 100 | 100 |
| Vattenfall Hollandse Kust Zuid 1&2 C.V. | Amsterdam | 50.5 | 100 |
| Vattenfall Hollandse Kust Zuid 3&4 C.V. | Amsterdam | 50.5 | 100 |
| Vattenfall Klantenservice N.V.[1] | Amsterdam | 100 | 100 |
| Vattenfall Power Generation Netherlands B.V.[1] | Amsterdam | 100 | 100 |
| Vattenfall Power Solutions Netherlands B.V. | Amsterdam | 100 | 100 |
| Vattenfall Sales Nederland N.V.[1] | Amsterdam | 100 | 100 |
| Vattenfall Samen in Zon B.V. | Amsterdam | 100 | 100 |
| Vattenfall Storage N.V. | Amsterdam | 100 | 100 |
| Vattenfall Warmte N.V.[1] | Amsterdam | 100 | 100 |
| Vattenfall Wind Development Netherlands B.V.[1] | Amsterdam | 100 | 100 |
| Vattenfall Windpark Wieringermeer B.V. | Amsterdam | 100 | 100 |
| DELTA Energie B.V.[1] | Middelburg | 100 | 100 |
| Feenstra N.V.[1] | Amsterdam | 100 | 100 |
| Feenstra Veiligheid B.V.[1] | Amsterdam | 100 | 100 |
| Feenstra Verwarming B.V.[1] | Lelystad | 100 | 100 |
| Nuon Epe Gas Service B.V.[1] | Amsterdam | 100 | 100 |
| powerpeers B.V.[1] | Amsterdam | 100 | 100 |
| Windpark Slufterdam West B.V.[1] | Amsterdam | 100 | 100 |
| Zuidlob Wind B.V.[1] | Amsterdam | 100 | 100 |
| V.O.F. Omgevingsvergunning Windpark Slufterdam | Rotterdam | 50 | 50 |
| **Germany** | | | |
| Nuon Epe Gasspeicher GmbH | Heinsberg | 100 | 100 |

1) Vattenfall NV has issued a declaration of liability for these subsidiaries. A complete list of subsidiaries, associated companies and joint ventures, as required by sections 379 and 414 of Book 2 Title 9 of the Dutch Civil Code, is filed with the Chamber of Commerce in Amsterdam.

## Note 15 Participations in associated companies and joint ventures

**Shares and participations owned by the Company or by other group companies**

| | Registered office | Participation in % 2021 | Participation in % 2020 | Carrying amount 2021 | Carrying amount 2020 |
|---|---|---|---|---|---|
| **Significant associated companies and joint ventures owned by Vattenfall NV** | | | | | |
| **Netherlands** | | | | | |
| B.V. Nederlands Elektriciteit Administratiekantoor[1] | Amsterdam | 23 | 23 | – | 7 |
| NoordzeeWind C.V.[2] | IJmuiden | – | 50 | – | – |
| Molenrak B.V.[2] | Amsterdam | 58 | – | 21 | – |
| Westpoort Warmte B.V.[2] | Amsterdam | 50 | 50 | 23 | 18 |
| **Total** | | | | **44** | **25** |

1) Associated company 2) Joint venture

**Financial information**

| | 2021 | 2020 |
|---|---|---|
| Balance brought forward | 25 | 28 |
| Assets held for sale | – | 1 |
| New share issues and shareholders' contributions | 22 | – |
| Divested companies | – | -1 |
| Reclassifications | – | 2 |
| Impairment losses | -7 | – |
| Profit participations and dividends | 4 | -5 |
| **Balance carried forward** | **44** | **25** |

The activities of the joint ventures and associated companies mainly relate to the construction and operation of wind farms and heat grids. The joint ventures and associated companies have no other significant contingent liabilities or commitments as at 31 December 2021 and 2020, except for those disclosed in Note 31.

Vattenfall NV has issued a series of loans to Westpoort Warmte B.V., totaling EUR 53 million (53) against an average interest rate of 1.9% (1.9%).

**Participations in the results of associated companies**

| | 2021 | 2020 |
|---|---|---|
| **Netherlands** | | |
| B.V. Nederlands Elektriciteit Administratiekantoor[1] | -7 | – |
| NoordzeeWind C.V[2] | -10 | -7 |
| Westpoort Warmte B.V.[2] | 5 | 4 |
| Other associated companies and joint ventures | – | 1 |
| **Total** | **-12** | **-2** |

1) Associated company 2) Joint venture

These joint ventures and associated companies cannot distribute their profits without the consent of the other investors in the relevant joint venture or associated company.

Since no more future benefits are expected from our participation in B.V. Nederlands Elektriciteit Administratiekantoor, the shares have been impaired. Noordzee Wind C.V. has been sold to our former co-owner, Royal Dutch Shell plc, which has resulted in a loss of approximately EUR 10 million.

## Note 16 Inventories

**Accounting policy**

Inventories (except for inventories held for trading) are valued at the lower of their cost and net realisable value. Net realisable value is the estimated sales price in operating activities, less estimated costs for completion and to bring about a sale. The cost of inventories is calculated, depending on the type of inventory, either through application of the first-in, first-out (FIFO) method or through the application of a method based on average prices. Both methods include costs that arose on acquisition of the inventory assets.

Inventories held for trading are valued at fair value less costs to sell. For $CO_2$ emission allowances that are held for trading, fair value is based on quoted prices (Level 1). For other commodities fair value measurement is derived from an observable market price, which means a categorisation into Level 2 of the fair value hierarchy. See Note 2 to the consolidated accounts, Accounting policies.

Develop-to-sell assets pertain to the operations within business area Wind, started during 2020, where Vattenfall NV constructs and builds wind- and solar farms with the purpose of selling to an external party. These are valued at the lower of their cost and net realisable value. Inventory sold through develop-to-sell transactions in 2021 amounted to EUR 256 million, of which EUR 254 million pertains to the sale of Windpark Wieringermeer Ext B.V.

**Financial information**

| | 2021 | 2020 |
|---|---|---|
| **Inventories held for own use** | | |
| Materials and spare parts | 31 | 33 |
| Other | 3 | 1 |
| **Total** | **34** | **34** |
| **Develop-to-sell assets** | | |
| Develop-to-sell assets | 87 | 290 |
| **Total** | **87** | **290** |
| **Inventories held for trading** | | |
| Fossil fuel | 240 | 71 |
| $CO_2$ emission allowances/certificates | 2 | 6 |
| Biomass | 8 | 10 |
| **Total** | **250** | **87** |
| **Total inventories** | **371** | **411** |

## Note 17 Trade receivables and other receivables

### Accounting policy

Trade receivables and other receivables are initially measured at fair value and subsequently at amortised cost. For trade receivables the calculation of the loss reserve is based on expected credit losses for the remaining term. A collective method is used where the receivables are grouped together per business line based on e.g., the number of days past due including any past-due receivables, and a credit loss percentage is calculated for the respective intervals, where in the model Vattenfall NV has based its calculations on experience from historic loss levels for receivables with similar credit risk characteristics while taking into account forward-looking macroeconomic conditions that may affect expected cash flows. For individual significant receivables, an individual assessment may be made.

Vattenfall NV has assessed the impact of Covid-19 and contrary to expectations, the expected negative impact of Covid-19 has not materialised so far due to, among other things, continued government support for businesses in 2021. However, Vattenfall NV expects a delayed effect due to the termination of the government support in 2021 and the upcoming repayment of delayed tax obligations as of 1 October 2022. Furthermore, 2021 saw an unprecedented price increase in the energy market which continues into 2022. Therefore, the increase in the provision for expected credit losses in 2020 will be maintained in 2021, as it is estimated that there is an increased risk that more customers and businesses will experience payment difficulties than before.

The allowance for expected credit losses of trade receivables is reported in cost of purchases. Vattenfall NV evaluates the concentration of risk with respect to trade receivables as low, as its customers are located in all Dutch regions and, in case of businesses, operate in several industries in largely independent markets.

### Financial information

| | 2021 | 2020 |
|---|---|---|
| Accounts receivable - trade | 482 | 361 |
| Receivables from related companies | 1,730 | 598 |
| Other receivables | 22 | 41 |
| **Total** | **2,234** | **1,000** |

Note that that due to the homogeneous nature of BtC balances, debit as well as credit balances are summed into one Accounts receivable position.

### Receivables from related companies

Receivables from related companies include the transfer of financial resources and ongoing clearing of transactions settled with or on behalf of group companies with Vattenfall AB and transactions related to trading activities with Vattenfall Energy Trading GmbH. Interest-bearing amounts receivable from Vattenfall AB group companies are charged with an interest rate based on the Euro OverNight Index Average (EONIA) - 0.1% (with a floor of 0.0%).

### Age analysis

The collection period is normally between 10 and 30 days.

| | 2021 | | | | 2020 | | | |
|---|---|---|---|---|---|---|---|---|
| | Receivables, gross | Impaired receivables | Receivables, net | Expected credit loss | Receivables, gross | Impaired receivables | Receivables, net | Expected credit loss |
| **Accounts receivable - trade** | | | | | | | | |
| Not due | 413 | – | **413** | **0%** | 312 | 1 | **311** | **0%** |
| Past due 1-30 days | 46 | 1 | **45** | **2%** | 26 | 1 | **25** | **4%** |
| Past due 31-90 days | 9 | 1 | **8** | **11%** | 8 | 1 | **7** | **13%** |
| Past due >90 days | 33 | 17 | **16** | **52%** | 38 | 20 | **18** | **53%** |
| **Total** | **501** | **19** | **482** | **4%** | **384** | **23** | **361** | **6%** |

## Note 18 Advance payments paid

| | 2021 | 2020 |
|---|---|---|
| Margin calls paid, energy trading | 2 | 1 |
| Other advance payments | – | 2 |
| **Total** | **2** | **3** |

A margin call paid is a marginal security (collateral) that Vattenfall NV pays its counterparty as the holder of a derivative position to cover the counterpart's credit risk, either bilaterally via OTC or through an exchange. In Vattenfall NV's business activities, margin calls occur in energy trading and in the financing operations.

## Note 19 Prepaid expenses and accrued income

| | 2021 | 2020 |
|---|---|---|
| Prepaid expenses and accrued income, energy related | 268 | 195 |
| Prepaid expenses, other | 11 | 9 |
| Accrued income, other | – | 1 |
| **Total** | **279** | **205** |

## Note 20 Cash

All liquid assets are freely available.

| | 2021 | 2020 |
|---|---|---|
| Cash and bank balances | 263 | 20 |
| **Total** | **263** | **20** |

## Note 21 Interest-bearing liabilities

**Reported values for interest-bearing liabilities are specified as follows:**

| | Non-current portion maturity 1-5 years | | Non-current portion maturity >5 years | | Total non-current portion | | Current portion | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2021** | **2020** | **2021** | **2020** | **2021** | **2020** | **2021** | **2020** | **2021** | **2020** |
| Liabilities to associated companies | – | – | – | – | **–** | **–** | 4 | – | **4** | **–** |
| Other liabilities | 103 | 75 | 104 | 127 | **207** | **202** | 36 | 29 | **243** | **231** |
| **Total interest-bearing liabilities** | **103** | **75** | **104** | **127** | **207** | **202** | **40** | **29** | **247** | **231** |

Leasing liabilities are part of the other liabilities. The non-current portion amounts to EUR 183 million (177) and the current portion amounts to EUR 34 million (27). Further reference is made to note 11 Leasing to the consolidated accounts.

## Note 22 Pension

### Accounting policy

Vattenfall NV's pension obligations are defined contribution plans.

### Defined contribution pension plans

Defined contribution pension plans are post-employment benefit plans according to which fixed fees are paid to a separate legal entity. There is no legal or constructive obligation to pay additional fees if the legal entity does not have sufficient assets to pay all benefits to the employees. Fees for defined contribution pension plans are reported as an expense in the income statement in the period they apply to.

### Dutch pension plans

Vattenfall NV has various pension and similar plans for its current and former employees. The majority of the pension obligations has been transferred to the ABP pension fund and the 'Metaal en Techniek' pension fund. In addition to these two main pension plans, Vattenfall NV has a small number of defined benefit plans that are in aggregate not material. The ABP and 'Metaal en Techniek' plans are classified and reported as defined contribution plans. The coverage ratio of the ABP pension fund amounts to 110.2% (93.2%) and the pension premium for 2021 amounts to 25.9% (25.9%). The coverage ratio of the 'Metaal en Techniek' pension fund amounts to 106.1% (95.4%) and the pension premium for 2021 amounts to 28.0% (28.0%).

## Note 23 Provisions

### Accounting policy

A provision is reported on the balance sheet when the Company has a legal or constructive obligation as a result of a past event and it is probable that an outflow of financial resources will be required to regulate the obligation and a reliable estimate of the amount can be made. Where the effect of the time when payment is made is material, provisions are estimated by discounting the anticipated future cash flow at an interest rate before tax that reflects market estimates of time value of money. The discount rate does not reflect such risks that are taken into consideration in the estimated future cash flow.

Changes in discounted provisions for dismantling, restoration or similar measures, which at the time of acquisition have also been reported as Property, Plant and Equipment, are reported as follows: In cases where the change is due to a change in the estimated outflow of resources or a change in the discount rate, the cost of Property, Plant and Equipment is changed in an amount corresponding to the provision. The periodic change of the present value is recognised as a financial expense.

A provision for onerous contracts is recognised when the expected economic benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Company recognises any impairment loss on any assets associated with that contract.

### Important estimations and assessments

For provisions for future commitments for gas and wind operations and other environmental measures/undertakings, and for personnel-related provisions for non-pension purposes, or other provisions, the following discount rates are used, when discount effect is material:

- Personnel-related provisions for non-pension purposes: -0.25% (0.00%).
- Decommissioning provisions for new gas and wind operations: 2.00% (2.25%)
- Decommissioning provisions for existing gas and wind operations: 0.00% (0.00%)

***Provisions for future commitments for heat and wind operations and other environmental measures/ undertakings***

Provisions are made in the Netherlands for the dismantling and removal of assets and restoration of sites where the Company conducts gas operations. Provisions are also made for restoration of sites where Vattenfall NV conducts wind operations and for environmental measures/undertakings within other activities carried out by the Company.

***Personnel-related provisions for non-pension purposes***

Provisions are made for future costs pertaining to:

- Long-term sickness. This covers the obligation to continue paying all or part of an employee's salary during the first two years of sick leave.
- Jubilee payments. This covers the jubilee benefits paid to employees for every 10 years of service and after retiring upon reaching the retirement age.
- Severance payments related to restructuring measures. This covers payments and/or supplements to benefits granted to employees whose employment contract has been terminated. These benefits and supplements are based on the Social Plan operated by Vattenfall NV and individual arrangements.
- Other costs for giving notice to personnel.

***Provision for onerous contracts***

The provision for onerous contracts relates to contingent losses from pending transactions from fixed-price contracts with customers. The recognition of the provision of EUR 2,199 million (0) in 2021 is largely due to increased energy prices on the commodity markets. The fair value swings of hedged commodity items leads to results based on spot price movements whereas the settlement with the customers takes place upon delivery - usage of the electricity and gas. In market situations with stable prices there is no significant impact on the settlement prices during the year. However due to surging prices for both gas and electricity during the last quarter of 2021 a portion of the fixed-price contracts have become onerous from the perspective of Vattenfall NV.

***Other provisions***

Other provisions include, among others, guarantee commitments.

**Financial information**

| | Non-current portion | | Current portion | | Total | |
|---|---|---|---|---|---|---|
| | **2021** | **2020** | **2021** | **2020** | **2021** | **2020** |
| Provisions for future expenses of gas and wind operations and other environmental measures/undertakings | 50 | 50 | 4 | 4 | **54** | **54** |
| Personnel-related provisions for non-pension purposes | 18 | 20 | 7 | 9 | **25** | **29** |
| Provision for onerous contracts | 343 | 6 | 1,876 | 1 | **2,219** | **7** |
| Other provisions | 4 | 4 | 14 | 3 | **18** | **7** |
| **Total** | **415** | **80** | **1,901** | **17** | **2,316** | **97** |

**Movement schedule provisions**

| | Provisions for gas, wind and other environmental measures | Personnel-related provisions for non-pension purposes | Provision for onerous contracts | Other provisions |
|---|---|---|---|---|
| Balance brought forward | 54 | 29 | 7 | 7 |
| Reclassification to right-of-use assets | – | – | -3 | – |
| Additions | 7 | 9 | 2,215 | 13 |
| Provisions used | – | -6 | 2 | – |
| Provisions reversed | -6 | -7 | -2 | -2 |
| Divested companies | -1 | – | – | – |
| **Balance carried forward** | **54** | **25** | **2,219** | **18** |

**Future commitments of non-current provisions**

With the current assumptions, provisions are expected to result in outgoing payments as shown below:

| | Provision for gas and wind operations | Personnel-related provision | Provision for onerous contracts | Other provisions | Total |
|---|---|---|---|---|---|
| 2-5 years | 2 | 13 | 343 | 4 | **362** |
| 6-10 years | 1 | 2 | – | – | **3** |
| 11-20 years | 9 | 2 | – | – | **11** |
| Beyond 20 years | 38 | 1 | – | – | **39** |
| **Total** | **50** | **18** | **343** | **4** | **415** |

## Note 24 Trade payables and other liabilities

| | 2021 | 2020 |
|---|---|---|
| Accounts payable - trade | 283 | 256 |
| Liabilities to related companies | 926 | 367 |
| Other liabilities | 570 | 384 |
| **Total** | **1,779** | **1,007** |

## Note 25 Advance payments received

| | 2021 | 2020 |
|---|---|---|
| Margin calls received, energy trading | 155 | – |
| **Total** | **155** | **–** |

A margin call received is marginal security (collateral) that Vattenfall NV's counterparty pays to Vattenfall NV as the holder of a derivative position to cover Vattenfall NV's credit risk, either bilaterally via OTC or through an exchange. In Vattenfall NV's business activities, margin calls occur in energy trading and in the treasury operations.

Margin calls received within energy trading are recognised on the balance sheet as Advance payments received and are thereby recognised in the statement of cash flows as cash flows from changes in operating liabilities.

## Note 26 Accrued expenses and deferred income

| | 2021 | 2020 |
|---|---|---|
| Accrued personnel-related costs | 50 | 49 |
| Accrued expenses, $CO_2$ emission allowances | 157 | 108 |
| Other accrued expenses | 11 | 11 |
| Accrued liabilities | 232 | 280 |
| Deferred income | 78 | 77 |
| **Total** | **528** | **525** |

## Note 27 Financial instruments by measurement category, offsetting of financial assets and liabilities, and financial instruments' effects on income

### Accounting policy

#### Classification and measurement

***Financial assets***

Financial assets are classified in various categories based in part on the objective (the business model) of holding the financial asset, and in part on the financial instrument's contractual cash flows, in the event they consist only of principal amounts and interest. The classification is determined at the original point of acquisition. Settlement day accounting is applied for spot purchases and spot sales of financial assets.

*Amortised cost*

Financial assets (debt instruments) are classified in this category if they are held in a business model whose objective is to hold financial assets in order to collect their contractual cash flows, and if 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. These instruments are measured at amortised cost, where the reported gross value is adjusted for expected credit losses. For Vattenfall NV this category includes Other non-current receivables, Trade receivables and other receivables, Advance payments paid, and Cash and bank balances.

*Fair value through profit or loss*

This category includes all of Vattenfall NV's financial assets (debt instruments) that are not measured at amortised cost. This includes assets held for trading, which entails that the objective is that they will be sold in the near term, and assets that Vattenfall NV is monitoring and measuring based on fair value. Debt instruments are also classified in this category if the contractual terms do not consist solely of payments of principal and interest.

Derivative assets are measured at fair value through profit or loss, except for derivative instruments designed as hedge instruments in an effective hedge, where the principles for hedge accounting are used. The assets in this category are remeasured on a regular basis to fair value with changes in value reported in profit or loss.

***Financial liabilities***

*Financial liabilities at fair value through profit or loss*

Derivative liabilities are always classified in this category. These financial liabilities are measured at fair value with changes in value recognised in profit or loss.

*Other financial liabilities*

In this category, interest-bearing and noninterest-bearing financial liabilities that are not held for trading purposes are reported. Other financial liabilities are measured at amortised cost. Trade liabilities have a short, anticipated term and are therefore valued at a nominal amount without discounting.

#### Impairment

Impairment of financial assets is based on models for expected credit losses. For trade receivables that do not include a significant financing component, a simplified method is used, where calculation of the loss reserve is based on expected credit losses for the remaining term. A collective method is used where the receivables are grouped together per business line based on e.g., the number of days past due including any past-due receivables, and a credit loss percentage is calculated for the respective intervals, where in the model Vattenfall NV has based its calculations on experience from historic loss levels for receivables with similar credit risk characteristics while taking into account forward-looking macro-economic conditions that may affect expected cash flows. For individual significant receivables, an individual assessment may be made. The allowance for expected credit losses of trade receivables is reported in cost of purchases.

Vattenfall NV evaluates the concentration of risk with respect to trade receivables as low, as its customers are located in all Dutch regions and, in case of businesses, operate in several industries in largely independent markets. For other financial assets where the policies for impairment are applied, a loss reserve is reported that corresponds to 12 months' expected credit losses at initial recognition. If the credit risk increases significantly since initial recognition, a reserve corresponding to expected credit losses during the entire term is reported. Vattenfall NV presumes that the credit risk has not increased significantly if the instrument has a low credit risk on the balance sheet date, such as instruments with an investment grade rating. The credit risk is considered to have increased significantly if the counterparty's rating has been lowered to a lower rating than investment grade or, alternatively, if the counterparty already had a lower credit rating than investment grade at initial recognition and this rating was significantly lowered further. Expected credit losses are calculated by assessing the probability of default, the loss given default and the exposure at default.

## Financial information

Risks arising from financial instruments are described in Note 28 Financial Risks of the consolidated accounts.

### Financial instruments by measurement category

Presented below are assets and liabilities where the carrying amount differs from the fair value.

| | 2021 | | 2020 | |
|---|---|---|---|---|
| | Carrying amount | Fair value | Carrying amount | Fair value |
| **Financial assets at amortised cost** | | | | |
| Other non-current receivables | 57 | 60 | 42 | 45 |
| **Financial liabilities at amortised cost** | | | | |
| Other non-current interest-bearing liabilities | 207 | 213 | 202 | 209 |

### Offsetting financial assets and financial liabilities

Presented below are financial assets and liabilities that are subject to enforceable master netting arrangements and similar agreements.

*Assets 31 December 2021*

| | | | | Related amounts not set off on the balance sheet | | |
|---|---|---|---|---|---|---|
| | Gross amounts of recognised financial assets | Gross amounts of recognised financial liabilities set off on the balance sheet | Net amounts of financial assets presented on the balance sheet | Financial liabilities, not intended to be settled net[1] | Cash collateral received | Net amount |
| Derivatives, commodity contracts | 6,047 | 3,911 | 2,136 | – | – | 2,136 |
| **Total** | **6,047** | **3,911** | **2,136** | **–** | **–** | **2,136** |
| Derivatives, not subject to offsetting | 218 | – | 218 | – | – | 218 |
| **Total derivative assets** | | | **2,354** | | | **2,354** |

*Assets 31 December 2020*

| | | | | Related amounts not set off on the balance sheet | | |
|---|---|---|---|---|---|---|
| | Gross amounts of recognised financial assets | Gross amounts of recognised financial liabilities set off on the balance sheet | Net amounts of financial assets presented on the balance sheet | Financial liabilities, not intended to be settled net[1] | Cash collateral received | Net amount |
| Derivatives, commodity contracts | 1,036 | 879 | 157 | – | – | 157 |
| **Total** | **1,036** | **879** | **157** | **–** | **–** | **157** |
| Derivatives, not subject to offsetting | 80 | – | 80 | – | – | 80 |
| **Total derivative assets** | | | **237** | | | **237** |

Net amounts of financial assets presented on the balance sheet with related parties amount to EUR 2,258 million (154) as of 31 December 2021.

*Liabilities 31 December 2021*

| | Gross amounts of recognised financial liabilities | Gross amounts of recognised financial assets set off on the balance sheet | Net amounts of financial liabilities presented on the balance sheet | Related amounts not set off on the balance sheet: Financial assets, not intended to be settled net[1] | Related amounts not set off on the balance sheet: Cash collateral pledged | Net amount |
|---|---|---|---|---|---|---|
| Derivatives, commodity contracts | 4,088 | 3,911 | 177 | – | – | 177 |
| **Total** | **4,088** | **3,911** | **177** | **–** | **–** | **177** |
| Derivatives, not subject to offsetting | 2 | – | 2 | – | – | 2 |
| **Total derivative liabilities** | | | **179** | | | **179** |

*Liabilities 31 December 2020*

| | Gross amounts of recognised financial liabilities | Gross amounts of recognised financial assets set off on the balance sheet | Net amounts of financial liabilities presented on the balance sheet | Related amounts not set off on the balance sheet: Financial assets, not intended to be settled net[1] | Related amounts not set off on the balance sheet: Cash collateral pledged | Net amount |
|---|---|---|---|---|---|---|
| Derivatives, commodity contracts | 913 | 879 | 34 | – | – | 34 |
| **Total** | **913** | **879** | **34** | **–** | **–** | **34** |
| Derivatives, not subject to offsetting | 3 | – | 3 | – | – | 3 |
| **Total derivative liabilities** | | | **37** | | | **37** |

1) These items cannot be settled net as each transaction has a unique due date and they were not entered into with the purpose to be settled net. Settlement can be entailed only in case of default and only and when it is intented to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

Net amounts of financial liabilities presented on the balance sheet with related parties amount to EUR 179 million (31) as of 31 December 2021.

**Financial assets and liabilities that are measured at fair value on the balance sheet at 31 December 2021**

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **Assets** | | | | |
| Derivative assets | – | 2,243 | 111 | **2,354** |
| **Total assets** | **–** | **2,243** | **111** | **2,354** |
| | | | | |
| **Liabilities** | | | | |
| Derivative liabilities | – | 179 | – | **179** |
| **Total liabilities** | **–** | **179** | **–** | **179** |

**Financial assets and liabilities that are measured at fair value on the balance sheet at 31 December 2020**

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **Assets** | | | | |
| Derivative assets | – | 187 | 50 | **237** |
| **Total assets** | **–** | **187** | **50** | **237** |
| | | | | |
| **Liabilities** | | | | |
| Derivative liabilities | – | 37 | – | **37** |
| **Total liabilities** | **–** | **37** | **–** | **37** |

**Sensitivity analysis for Level 3 contracts**

For the determination of fair value of financial instruments, Vattenfall NV strives to use valuation techniques that maximise the use of observable market data where it is available and rely as little as possible on entity-specific estimates.

Entity-specific estimates are based on internal valuation models that are subject to a defined process of validation, approval and monitoring. In the first step the model is designed by the business. The valuation model and calibration of the valuation model is then independently reviewed and approved by Vattenfall NV's risk organisation. If deemed necessary, adjustments are required and implemented. Afterwards, Vattenfall NV's risk organisation continuously monitors whether the application of the method is still appropriate. This is made by usage of several back-testing tools. In order to reduce valuation risks, the application of the model can be restricted to a limited scope.

Vattenfall NV's Level 3 contracts consist of CDM and virtual gas storage contracts. The net value as per 31 December 2021 has been calculated at EUR 111.3 million (49.9) and is most sensitive to the optionality volatility. A change in the value of the daily volatility of +/-5% would affect the total value by approximately +/- EUR 10.1 million (+/- 2.2).

**Derivative assets**

| | Non-current portion maturity 1-5 years | | Non-current portion maturity >5 years | | Total non-current portion | | Current portion | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2021** | **2020** | **2021** | **2020** | **2021** | **2020** | **2021** | **2020** | **2021** | **2020** |
| Commodity and commodity-related contracts | 252 | 25 | – | – | **252** | **25** | 2,102 | 212 | **2,354** | **237** |
| **Total** | **252** | **25** | **–** | **–** | **252** | **25** | **2,102** | **212** | **2,354** | **237** |

**Derivative liabilities**

| | Non-current portion, maturity 1-5 years | | Non-current portion, maturity >5 years | | Total non-current portion | | Current portion | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2021** | **2020** | **2021** | **2020** | **2021** | **2020** | **2021** | **2020** | **2021** | **2020** |
| Commodity and commodity-related contracts | 128 | 32 | – | – | **128** | **32** | 51 | 5 | **179** | **37** |
| **Total** | **128** | **32** | **–** | **–** | **128** | **32** | **51** | **5** | **179** | **37** |

**Changes in liabilities arising from financing activities**

| | 2021 | | | | |
|---|---|---|---|---|---|
| | **1 January** | **Cash flows** | **New leases** | **Other** | **31 December** |
| Non-current interest-bearing liabilities | 202 | – | 60 | -55 | **207** |
| Current interest-bearing liabilities | 29 | -45 | 13 | 43 | **40** |
| **Total liabilities from financing activities** | **231** | **-45** | **73** | **-12** | **247** |

**Changes in liabilities arising from financing activities**

| | 2020 | | | | |
|---|---|---|---|---|---|
| | **1 January** | **Cash flows** | **New leases** | **Other** | **31 December** |
| Non-current interest-bearing liabilities | 80 | – | 135 | -13 | **202** |
| Current interest-bearing liabilities | 31 | -39 | 8 | 29 | **29** |
| **Total liabilities from financing activities** | **111** | **-39** | **143** | **16** | **231** |

## Note 28 Financial risks

The following risks can be identified with respect to financial instruments: market risk, credit risk and liquidity risk. These risks are managed on a Vattenfall AB level. Vattenfall AB's risk management to the extent to which it is relevant for Vattenfall NV are summarised below.

### Market risk - commodities including electricity

Market risk for electricity and commodities refers to the risk of Vattenfall failing to achieve its financial targets as a result of an adverse change in commodity prices. Vattenfall AB's price hedging strategy is focused on the Nordic generation assets although in the last couple of years the strategy has extended to also hedging thermal asset production. Vattenfall NV does not apply hedge accounting for new transactions in its consolidated account, since 2017.

#### Risk management activities

Through our asset ownership and sales activities we are exposed to electricity, fuel, and $CO_2$ emission allowance prices, which are affected by several fundamental factors, such as the global macroeconomic situation, local supply, demand, and political decisions. We are active in the wholesale trading market to hedge our electricity position and fuel requirements through physical and financial forward contracts and long-term customer contracts. These contracts pertain to time horizons in which there is no possibility to hedge prices in the liquid part of the futures market, and stretch as far as 2030. Most volumes are hedged at the beginning of this time horizon, with falling volumes towards the end. The Vattenfall Risk Committee (VRC) decides how much generation is to be hedged within the mandates issued by the Board of Directors. To measure electricity price risk, we use methods such as Value at Risk (VaR) and Gross Margin at Risk along with various stress tests.

#### Portfolio structure

With the current portfolio structure, the dominant risk exposure is now coupled to Nordic nuclear and hydro power baseload generation. In addition, Vattenfall's continuing operations generate a higher share of regulated revenue from distribution, heat and tendered wind power, which reduces the total risk exposure on the Continent (Germany, the Netherlands as well as the UK). Vattenfall continues to have some price exposure between electricity and used fuel/emissions on the Continent. Such an exposure has a lower risk profile than the outright power exposure in the Nordic countries. The market price risk of Vattenfall's production assets and hedges for electricity, fuel prices and emissions as well as the ancillary trading market price risks are monitored daily.

#### VaR levels

VaR calculation quantifies potential changes in the value of commodity positions as a result of market price movements. The inputs to the VaR calculation are positions (open volumes), current market prices and the variability of prices (volatilities and correlations), all of which are updated daily. The risk limits are designed to prevent maximum loss to exceed SEK 2.5 billion (approximately EUR 250 million), which can be compared to a VaR of EUR 21 million (26), with a 99% confidence level and a 1-day holding period. Thus, the VaR measures the marked-to-market movement arising from a 1-day change in market prices, under normal market conditions, which should only be exceeded 1% of the time. The VaR levels for Vattenfall NV amount to EUR 1.4 million (0.6).

#### Ancillary trading

In addition to commodity market risk resulting from our assets and sales activities, Vattenfall AB's Board of Directors has given the CEO a risk mandate to allow discretionary risk-taking and trading in the wholesale market. Most of our risk exposure in the ancillary trading portfolio is based on market prices (mark-to-market). In cases where market prices cannot be observed, modelled prices are used (mark-to-model). Mark-to-model positions arise mainly in asset- and sales-related portfolios, see Note 27 to the consolidated accounts, Financial instruments. Management of such valuation models is strictly regulated, and approval is required from the risk organisation before they may be used.

### Volume risk

Volume risk pertains to the risk for deviations between anticipated and actual delivered volume.

#### Risk management activities

District heating volumes are managed by improving and developing forecasts for heat consumption. There is a correlation between electricity prices and generated electricity volume. Volume risk also arises in the sales activities as deviations in the anticipated volumes against actual volumes delivered to customers. Here, too, improved monitoring and forecasting capabilities are the most efficient risk management instruments.

### Liquidity risk

Liquidity risk refers to the risk of Vattenfall not being able to finance its capital needs and arises if asset values at maturity do not match those of liabilities and other derivatives.

#### Risk management activities

Access to capital and flexible financing solutions are ensured through several types of debt issuance programmes and credit facilities on the level of Vattenfall AB.

### Short-term financing

Vattenfall AB has a defined target for its short-term accessibility to capital. The goal is that funds corresponding to no less than 10% of the consolidated net sales, or the equivalent of 90 days' stressed liquidity needs of the business (whichever is higher) shall be available. As per 31 December 2021, available liquid assets and/or committed credit facilities amounted to 104% (47%) of consolidated net sales.

### Long-term financing

Vattenfall is committed to maintaining financial stability, which is reflected in the company's long-term targets for capital structure. On 26 November 2021 Standard & Poor's affirmed Vattenfall's long-term BBB+ and short-term A-2 rating as well as the BB+ rating for hybrid bonds. The rating outlook was changed from stable to positive. On 6 July 2021 Moody's affirmed Vattenfall's long-term A3, short term P-2 rating and Baa2 rating for hybrid bonds. At the same time the rating outlook was revised from negative stable. Vattenfall has a strong liquidity reserve but given our large future investments we aim to take advantage of the favourable market conditions for refinancing. Vattenfall has decided to use green financing in its funding activities. Investors should expect all future long-term financing to be made under Vattenfall's Green Bond framework.

### Contractual cash flows

Vattenfall NV is financed via internal loans and credit facilities. To provide insight into the liquidity risk, the following table shows the contractual terms of the financial obligations (translated at the reporting date rate), including interest payments. The contractual cash flows of non-current assets as well as current assets combined with the internal loans and credit facilities available at Vattenfall AB cover the current need for liquidity as included in the table. The total facilities available at Vattenfall AB amount to EUR 500 million, of which none was utilised.

| | Non-current portion maturity 1-5 years | | Non-current portion maturity > 5 years | | Total non-current portion | | Current portion | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2021** | **2020** | **2021** | **2020** | **2021** | **2020** | **2021** | **2020** | **2021** | **2020** |
| Interest-bearing liabilities | 106 | 76 | 117 | 145 | **223** | **221** | 38 | **32** | **261** | **253** |
| Derivatives | -767 | 565 | – | – | **-767** | **565** | 1,978 | **788** | **1,211** | **1,353** |
| Trade payables and other financial liabilities | – | – | – | – | **–** | **–** | 1,779 | **1,007** | **1,779** | **1,007** |
| **Total** | **-661** | **641** | **117** | **145** | **-544** | **786** | **3,795** | **1,827** | **3,251** | **2,613** |

## Interest rate risk

Interest rate risk refers to the negative impact of changed interest rates on Vattenfall's income statement and cash flow.

### Risk management activities

We quantify interest rate risk in our debt portfolio in terms of duration, which describes the average term of fixed interest. The norm duration is based on Vattenfall AB's current financing need and desired interest rate sensitivity in net interest income/expense. Duration is to have a norm of five years with a permissible variation of +2/–1 year. The duration of Vattenfall AB's debt portfolio at year-end was 4.73 years (3.83) including Hybrid Capital.

### Sensitivity analysis in relation to cash flows for variable interest assets and liabilities

Vattenfall NV is exposed to interest rate risk on its interest-bearing liabilities, see Note 21 to the consolidated accounts, Interest-bearing liabilities. A change of 100 basis points in the interest rates as at 31 December 2021 would, assuming all other circumstances remain unchanged, have a pre-tax effect on Vattenfall NV's equity and financial income and expenses of EUR 0 million (0) on an annual basis.

## Currency risk

Currency risk refers to the negative impact of changed exchange rates on Vattenfall's income statement and balance sheet.

### Risk management activities

Vattenfall AB is exposed to currency risk through exchange rate movements attributable to future cash flows (transaction exposure). Currency exposure in borrowing is limited by using currency exchange rate swaps. We strive for an even maturity structure for derivatives. Derivative assets and derivative liabilities are reported in Note 27 to the consolidated accounts, Derivative assets and derivative liabilities. We have limited transaction exposure, since most generation, distribution and sales of electricity take place in the respective local markets. Sensitivity to currency movements is therefore relatively low. All transaction exposure that exceeds a nominal value equivalent to SEK 10 million is to be hedged immediately when it arises. The target for hedging translation exposure is to, over time, match the currency composition in the debt portfolio with the currency composition of Vattenfall AB's funds from operations (FFO).

### Sensitivity analysis in relation to currency risk

Vattenfall NV's exposure to significant currency risks based on nominal values amount to EUR 3 million (7). This exposure is reduced by derivatives concluded to hedge the currency risk for an amount of EUR 6 million (3). The pre-tax effect that a possible increase or decrease in the value of foreign currencies relative to the euro would have, assuming all other circumstances remain unchanged, on Vattenfall NV's financial income and expenses and equity, taking into account the derivatives, amount to EUR 0.3 million (0.4).

### Credit risk

Credit risk can arise if a counterparty cannot or fails to meet its obligations and exists in all parts of Vattenfall's operations.

#### Risk management activities

We have a strict framework for governing and reporting credit risks to ensure that risks are monitored, measured and minimised so that the total credit exposure is kept within Vattenfall AB's risk appetite. The company's credit risk management involves the analysis of its counterparties, reporting of credit risk exposures, contract negotiations and proposals for risk mitigation measures (e.g., obtaining collateral).

## Note 29 Specifications of the cash flow statement

**Other investments in non-current assets**

| | 2021 | 2020 |
|---|---|---|
| Investments in intangible assets: non-current, including advance payments | -15 | -19 |
| Investments in property, plant and equipment, including advance payments | -644 | -404 |
| **Total** | **-659** | **-423** |

## Note 30 Specifications of equity

### Authorised, issued and paid-up share capital

The authorised share capital of Vattenfall NV amounts to EUR 1,500,000,000 consisting of 300,000,000 shares, with a nominal value of EUR 5 per share. The total number of issued and paid-up shares amounts to 136,794,964 shares totaling a paid-up capital of EUR 683,974,820. All shares are held by Vattenfall AB.

### Share premium

Share premium consists of the additional paid-up or contributed value to Vattenfall NV.

### Retained earnings including result for the year

Retained earnings including result for the year include results of Vattenfall NV and its subsidiaries, associated companies and joint ventures.

The surplus value on the sale of the minority interest in the Hollandse Kust Zuid project to BASF has been added to retained earnings.

### Attributable to non-controlling interests

The sale of the minority share in the Hollandse Kust Zuid project to BASF has resulted in an initial non-controlling interest of EUR 147 million and a subsequent contribution of the new partner in the project of EUR 163 million.

### Dividend policy

Vattenfall NV's dividend policy stipulates the following:

- The maximum dividend distribution shall be the net profit, adjusted for significant non-cash fair value movements on financial instruments;
- As a result of the dividend distribution the debt/equity ratio will not exceed 60/40;
- The dividend distribution can only be done to the extent that adequate liquidity lines are available to Vattenfall NV and a sufficiently sustainable cash position is maintained over the next 12 months as proven by the long-term cash forecast of Vattenfall NV.

## Note 31 Contingent liabilities

As per 31 December 2021 contingent liabilities amounted to EUR 4,106 million (2,726). The contingent liabilities mainly consist of capital expenditure commitments regarding property, plant and equipment and intangible assets. The outstanding capital expenditure commitments relate mainly to construction in progress, and other purchasing commitments. Most of these commitments are covered by guarantees provided by the Parent Company or various banks.

### Sales and purchase commitments

Vattenfall NV has concluded a number of long-term purchase contracts with terms varying from 2021 to 2057. In addition, Vattenfall NV has concluded long-term sales contracts on varying terms and conditions. Vattenfall NV enters into energy commodity contracts for the sale and purchase of electricity, gas, biomass and emission allowances. The energy commodity contracts that are held for trading purposes and the energy commodity contracts that are designated as hedging instruments are recognised on the balance sheet at fair value. These contracts are not generally settled by means of physical delivery but by concluding opposite transactions in which only the net cash flows are settled.

Please refer to Note 28 Financial risks for the liquidity overview, which shows the contractual terms of all financial obligations recognised.

### Legal proceedings and other contingencies

At the reporting date, Vattenfall NV (including its subsidiaries, associated companies and joint ventures) was involved in a number of legal proceedings and investigations by tax and other authorities. Provisions have been made as far as deemed necessary in accordance with management's estimate and the accounting principles. Vattenfall NV believes that the ultimate resolution of these claims and proceedings will not, in the aggregate, have a material adverse effect on the Company's financial position, consolidated income or cash flows.

Vattenfall NV has provided several parent guarantees for its subsidiaries, joint ventures or associated companies, part of which are uncapped. On 31 December 2021, these parent guarantees amounted to EUR 1 million (1).

Vattenfall NV has issued declarations of joint and several liability pursuant to article 403, Part 9, Book 2 of the Dutch Civil code for a number of its subsidiaries. The significant group companies for which such a declaration has been issued are included in the list of subsidiaries included in Note 14 Shares and participations of the consolidated accounts. As partners in a number of general and limited partnerships, subsidiaries of Vattenfall NV are liable for the obligations of these partnerships. The exposure under these obligations is not considered to be significant.

Vattenfall NV and the majority of its subsidiaries form a fiscal unity for both corporate income tax and VAT purposes. Consequently, every legal entity forming part of the fiscal unity is jointly and severally liable for the tax liabilities of the legal entities forming part of the fiscal unity.

### Licences

Vattenfall NV has a licence for the supply of electricity, gas and heat and holds licences for constructing certain power and heat facilities.

## Note 32 Number of employees and personnel costs

**Number of employees at 31 December, full-time equivalents:**

| | 2021 | | | 2020 | | |
|---|---|---|---|---|---|---|
| | Men | Women | Total | Men | Women | Total |
| Netherlands | 2,726 | 926 | **3,652** | 2,633 | 911 | **3,544** |
| Germany | 19 | 2 | **21** | 18 | 2 | **20** |
| **Total** | **2,745** | **928** | **3,673** | **2,651** | **913** | **3,564** |

**Average number of employees during the year, full-time equivalents:**

| | 2021 | | | 2020 | | |
|---|---|---|---|---|---|---|
| | Men | Women | Total | Men | Women | Total |
| Netherlands | 2,693 | 918 | **3,611** | 2,647 | 902 | **3,549** |
| Germany | 19 | 2 | **21** | 18 | 1 | **19** |
| **Total** | **2,712** | **920** | **3,632** | **2,665** | **903** | **3,568** |

**Personnel costs:**

| | 2021 | 2020 |
|---|---|---|
| Salaries and other remuneration | 243 | 232 |
| Social security costs | 40 | 36 |
| Pension costs | 35 | 32 |
| **Total** | **318** | **300** |

**Benefits for Management and Supervisory Board members of Vattenfall NV**

| | 2021 | | | 2020 | | |
|---|---|---|---|---|---|---|
| Amounts in EUR thousands | Directors' fees and base salary including vacation pay | Other remuneration and benefits | Pension and severance costs | Directors' fees and base salary including vacation pay | Other remuneration and benefits | Pension and severance costs |
| Management Board | 1,046 | 111 | 163 | 878 | 125 | 119 |
| Supervisory Board | 17 | – | – | 17 | – | – |
| **Total** | **1,063** | **111** | **163** | **895** | **125** | **119** |

## Note 33 Related party disclosures

As of 1 July 2015, 100% of Vattenfall NV's shares are owned by Vattenfall AB. Vattenfall AB has a casting vote in the Supervisory Board and qualifies as a related party. Vattenfall NV also conducts transactions with subsidiaries of Vattenfall AB. Furthermore, Vattenfall NV and its subsidiaries have interests in various associated companies and joint ventures over which it exercises significant influence, but no control or only joint control of the operations and financial policy. Transactions with the parties classified as related parties are conducted at market conditions and prices that are not more favourable than the conditions and prices offered to independent third parties.

Disclosures of transactions with key persons in executive positions in the Company are shown in Note 32 to the Consolidated accounts, Number of emwployees and personnel costs.

The following transactions have taken place with related parties with regard to sales and purchases of goods and services, including leases.

**Related parties transactions**

| | 2021 | 2020 |
|---|---|---|
| Sales of goods and services to Vattenfall AB and its subsidiaries | 3,585 | 1,204 |
| Sales of goods and services to associated companies and joint ventures | 32 | 48 |
| Costs charged by Vattenfall AB and its subsidiaries | -4,725 | -2,356 |
| Costs charged by associated companies and joint ventures | -2 | -3 |

Various goods and services are bought or provided on normal commercial terms and conditions within Vattenfall AB. A cost-sharing program is in place, which entails that certain costs within the group are recharged to the users within Vattenfall AB based on actual usage. Vattenfall NV, in the ordinary course of business, trades commodities with and via Vattenfall Energy Trading Germany (VET Germany). Since VET Germany is not an end-user, transactions with this party are treated as if VET Germany is an external party. Trade transactions with VET Germany are netted and presented as part of Cost of purchases in the Consolidated income statement.

In the ordinary course of business, Vattenfall NV has outstanding payables and receivables with Vattenfall AB and its subsidiaries (refer to Note 17 and Note 24) as well as with its associated companies and joint ventures (Note 15). Vattenfall NV has also granted a limited number of loans to related parties. Where relevant, this has been disclosed in these consolidated accounts.

The members of the management board and supervisory board of Vattenfall NV have been identified as individuals who qualify as related parties. The employee benefits related to these individuals have been disclosed in Note 32.

## Note 34 Events after the balance sheet date

**Conflict in Ukraine**

The dark beginning of 2022 with Russia's invasion of Ukraine, in violation of international law, underlines the need to phase out fossil fuel dependency. Our thoughts go to those affected by this unjust war. There is currently a high degree of uncertainty surrounding the conflict between Russia and Ukraine and what the economic repercussions will be. The historical high price volatility for electricity and fuels is expected to continue due to the Russian invasion of Ukraine, even though the effects cannot yet be estimated. In 2021 the price volatility already led to an increased credit default and fulfilment risk from Vattenfall's trading partners. In the light of these uncertainties, special attention has been paid to the estimation of expected credit losses for financial instruments. Risk mitigation measures such as existing collateral and security agreements were hereby taken into account. Vattenfall NV also sees liquidity risks as well as measurement risks for financial assets. In addition, political or regulatory measures may have a direct or indirect impact on business activities. Overall, the impact of the conflict and any potential further escalation on business performance in 2022 and on key performance indicators cannot currently be estimated with sufficient accuracy.

**Stichting Nuon claim-Vattenfall**

On 30th March 2022, Stichting Nuon-claim ('the Foundation') started a 'class action' in court proceedings and summoned Vattenfall Sales NL, VET NL and Vattenfall N.V. The Foundation argues that a group of allegedly 5,000 business customers suffered damage because they were charged a 'kilowatt-charge' (kW-charge) from 2002 onward. The Foundation states that the kW-charge does not relate to any costs incurred or services performed by Vattenfall and that business customers have been misled. The Foundation claims that the total damage amounts to approximately EUR 400 million (calculated 5,000 customers x EUR 4,000 per year x 20 years).

Vattenfall holds the view that the kW-charge is not tortious and not misleading. The kW-charge is a component of the price for the supply of electricity. The supply price of these specific customers, consists of a price related to the number of kWh delivered to the customer, a fixed fee per grid connection and a component that relates to the capacity of the grid connection expressed in Euro per kW. The supply price is not related to costs of the grid operator for the transport of energy as is being claimed. As Vattenfall holds the view that it is not liable, no provisions have been made relating to this proceeding.

**Julietta D collision**

On 31st of January 2022 the cargo vessel Julietta D was at anchor near IJmuiden, but broke free in the high seas. Julietta D started drifting and hit (amongst others) TenneT's substation Bèta, a vessel named Pechora Star and one of the monopiles of windfarm Hollandse Kust Zuid (Hollandse Kust Zuid 1&2 CV). The monopile was severely damaged. A Construction All Risk insurance is in place for the construction of the windfarm which is expected to cover for the insured property damage loss of E4 (excluding the deductible) and associated legal fees.

**Sale Magnum Plant**

Vattenfall and RWE have agreed that RWE will take over the Magnum gas-fired power station in the Dutch Eemshaven from Vattenfall as of 31st October 2022, subject to approval of the European Commission. The proceeds from the sale of EUR 500 million will give Vattenfall more resources to invest in the energy transition, for example in fossil free energy projects such as offshore wind and district heating and cooling. The Magnum gas-fired electricity plant consists of three so-called combined cycle gas turbines, which together have a total capacity of 1,410 MW. The agreement also includes a solar park with a capacity of 5.6 MW.

**Purchase of Warmte Bedrijf Rotterdam (WBR)**

Vattenfall Warmte NL came to an agreement with the shareholders of WBR ( City of Rotterdam and Province Zuid-Holland ) to buy 100 % of the shares of WBR. Contracts, Assets and personnel (7 FTE) will be taken over by Vattenfall. The intended transaction needs to be approved by the regulator (ACM) and the European Commission. This is an important step in the development of Heat supply in the areas Rotterdam and Leiden.

# Company accounts

## Company balance sheet

| Amounts in EUR million, before appropriation of result | Note | 31 December 2021 | 31 December 2020 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 2 | 42 | 42 |
| Investments in subsidiaries | 3 | 4,463 | 3,605 |
| Deferred tax assets | 5 | 2 | 3 |
| Receivables from group companies | 4 | - | 26 |
| Other non-current receivables | 5 | 46 | 38 |
| **Total non-current assets** | | **4,553** | **3,714** |
| **Current assets** | | | |
| Trade receivable and other receivables | | 11 | 20 |
| Receivables from group companies | 6 | 1,241 | 1,463 |
| Cash | 7 | 96 | 2 |
| **Total current assets** | | **1,348** | **1,485** |
| **Total assets** | | **5,901** | **5,199** |
| **Equity and Liabilities** | | | |
| **Equity** | | | |
| Share capital | | 684 | 684 |
| Share premium | | 2,211 | 2,211 |
| Legal reserves | | 1,810 | 203 |
| Other reserves | | - 2,176 | - 1,066 |
| Unappropriated result for the year | | 420 | 443 |
| **Total equity attributable to Vattenfall NV shareholder** | **8** | **2,949** | **2,475** |
| **Provisions** | **9** | **23** | **29** |
| **Non-current liabilities** | | | |
| Interest-bearing liabilities | 10 | 20 | 15 |
| **Non-current liabilities** | | **20** | **15** |
| **Current liabilities** | | | |
| Trade payables and other liabilities | | 200 | 144 |
| Interest bearing liabilities | 10 | 14 | 11 |
| Payables to group companies | 6 | 2,695 | 2,525 |
| **Total current liabilities** | | **2,909** | **2,680** |
| **Total equity and liabilities** | | **5,901** | **5,199** |

## Company income statement

| Amounts in EUR million, 1 January - 31 December | Note | 2021 | 2020 |
|---|---|---|---|
| Result after taxation from subsidiaries | | 427 | 447 |
| Other income less expenses after taxation | 11 | - 7 | - 4 |
| **Result after taxation** | | **420** | **443** |

# Notes to the company accounts

## Note 1 Accounting policies

The company accounts have been prepared in accordance with the provisions of Part 9, Book 2 of the Dutch Civil Code. In the company accounts, Vattenfall NV uses the option provided for in Part 9, Book 2 of the Dutch Civil Code to prepare the company accounts in accordance with the IFRS accounting policies that are used in the preparation of the consolidated accounts. The company income statement is presented in abridged form, as allowed by section 402, Part 9, Book 2 of the Dutch Civil Code. In addition to the accounting policies for the consolidated accounts, specific accounting policies for the company accounts are presented below.

Vattenfall NV applies the exemption provided for by section 382a, Part 9, book 2 of the Dutch Civil Code, that the audit fee does not need to be disclosed. The financial figures of Vattenfall NV are consolidated in the annual report of Vattenfall. In the Vattenfall annual report the total audit fee of Vattenfall, including Vattenfall NV, is disclosed.

### Investments in subsidiaries

Investments in subsidiaries are valued at net asset value, which is determined on the basis of IFRS accounting policies as used in the consolidated accounts.

### Receivables from group companies

Loans and receivables from subsidiaries are stated at amortised cost, less impairment. The company makes use of the option to eliminate intercompany expected credit losses against the investments in subsidiaries.

## Note 2 Property, plant and equipment

| | 2021 | | | |
|---|---|---|---|---|
| | Land and buildings | Equipment, tools and fixtures and fittings | Construction in progress | Total |
| **Cost** | | | | |
| Cost brought forward | 51 | 240 | 2 | **293** |
| Investments | 14 | 3 | 2 | **19** |
| Transfer from construction in progress | – | – | -1 | **-1** |
| Divestments / disposals | -1 | – | – | **-1** |
| **Accumulated cost carried forward** | **64** | **243** | **3** | **310** |
| **Depreciation** | | | | |
| Depreciation brought forward | - 27 | - 224 | – | **- 251** |
| Depreciation for the year | - 8 | - 9 | – | **- 17** |
| **Accumulated depreciation carried forward** | **- 35** | **- 233** | **–** | **- 268** |
| **Carrying amount carried forward** | **29** | **10** | **3** | **42** |

| | 2020 | | | |
|---|---|---|---|---|
| | Land and buildings | Equipment, tools and fixtures and fittings | Construction in progress | Total |
| **Cost** | | | | |
| Cost brought forward | 45 | 231 | 2 | **278** |
| Investments | 5 | 8 | 2 | **15** |
| Transfer from construction in progress | 1 | 1 | - 2 | **–** |
| **Accumulated cost carried forward** | **51** | **240** | **2** | **293** |
| **Depreciation** | | | | |
| Depreciation brought forward | - 18 | - 214 | – | **- 232** |
| Depreciation for the year | - 9 | - 10 | – | **- 19** |
| **Accumulated depreciation carried forward** | **- 27** | **- 224** | – | **- 251** |
| **Carrying amount carried forward** | **24** | **16** | **2** | **42** |

For further disclosure, reference is made to Note 13 to the consolidated accounts, Property, plant and equipment.

## Note 3 Investments in subsidiaries

| | 2021 | 2020 |
|---|---|---|
| Balance brought forward | 3,605 | 3,060 |
| Result from transactions with owners in their capacity as owners | 250 | – |
| New share issues and shareholders' contributions | 181 | 98 |
| Share in result | 427 | 447 |
| **Balance carried forward** | **4,463** | **3,605** |

A list of directly and indirectly held participations in subsidiaries is included in Note 14, Shares and participations to the consolidated accounts.

## Note 4 Non-current receivables from group companies

| | 2021 | 2020 |
|---|---|---|
| Balance brought forward | 26 | 62 |
| Loans repaid | - 26 | - 36 |
| **Balance carried forward** | **–** | **26** |

The effective interest rate on the non-current receivables from group companies was 0.0% (2020: 0.9%).

## Note 5 Deferred tax assets and other non-current receivables

| | 2021 | | |
|---|---|---|---|
| | Deferred tax assets | Other non-current receivables | Total |
| Balance brought forward | 3 | 38 | **41** |
| Loans granted | – | 1 | **1** |
| Loans and interest repaid | – | 7 | **7** |
| Temporary differences charged to profit or loss | - 1 | – | **- 1** |
| **Balance carried forward** | **2** | **46** | **48** |

| | 2020 | | |
|---|---|---|---|
| | Deferred tax assets | Other non-current receivables | Total |
| Balance brought forward | 5 | 45 | **50** |
| Loans granted | – | 12 | **12** |
| Loans repaid | – | - 19 | **- 19** |
| Temporary differences charged to profit or loss | - 2 | – | **-2** |
| **Balance carried forward** | **3** | **38** | **41** |

Other non-current receivables consist of loans and receivables (including incremental costs) with related parties.

## Note 6 Receivables from and payables to group companies

Receivables from and payables to group companies include the transfer of financial resources and ongoing clearing of transactions settled with or on behalf of these group companies.

Interest bearing amounts receivable from the Company's subsidiaries are charged with an interest rate based on the Euro OverNight Index Average (EONIA) + 0.45% (with a floor of 0.45%).

Interest bearing amounts receivable from other Vattenfall AB group companies are charged with an interest rate based on EONIA - 0.1% (with a floor of 0.0%).

Interest bearing amounts due to the Company's subsidiaries are charged with an interest rate based on EONIA - 0.1% (with a floor of 0.0%).

Interest bearing amounts due to other Vattenfall AB group companies are charged with an interest rate based on EONIA + 0.45% (with a floor of 0.45%).

## Note 7 Cash

There is no restricted cash at the end of 2021 and 2020.

## Note 8 Equity

The Consolidated statement of changes in equity and disclosures to that statement are included in the Consolidated accounts. In addition to the Consolidated statement of changes in equity, a non-distributable legal reserve, in the form of a revaluation reserve, is recognised for unrealized fair value gains on financial instruments that are recognised in income, and for which no frequent market quotations are available (Level 2 and Level 3 financial instruments). With regard to Vattenfall NV, this relates to energy commodity contracts for gas, electricity, biomass and emission allowances that are not traded through recognised exchanges (e.g. Amsterdam Power Exchange, Endex), known as over-the-counter or OTC contracts. A legal reserve of EUR 1.766 million in total is held for the unrealised fair value movements of these contracts (2020: EUR 178 million).

In addition, a legal reserve participations of EUR 44 million (2020: EUR 25 million) is recognised. The legal reserve participations includes the increases in net asset value of joint ventures and associates since their first inclusion, less any amount that can be distributed without legal restrictions.

The legal reserve is not freely distributable.

## Note 9 Provisions

| | 2021 | 2020 |
|---|---|---|
| **Balance brought forward** | **29** | **37** |
| Reversed provisions | - 7 | - 8 |
| Provisions for the period | 8 | 10 |
| Provisions used | - 7 | - 10 |
| **Balance carried forward** | **23** | **29** |
| Current portion | 7 | 9 |
| Non-current portion | 16 | 20 |

## Note 10 Interest-bearing liabilities

The maturity of interest-bearing liabilities can be specified as follows:

| | Short-term part | | Long-term part | |
|---|---|---|---|---|
| | **2021** | **2020** | **2021** | **2020** |
| Leasing liabilities | 10 | 11 | 20 | 15 |
| **Total** | **10** | **11** | **20** | **15** |

## Note 11 Contingent liabilities

Reference is made to Note 31 to the consolidated accounts, Contingent liabilities.

## Note 12 Other income less expenses after taxation

Other income less expenses after taxation was EUR 7 million negative (2020: EUR 4 million negative) and consists mainly of income and expenses of company-wide activities at holding company level.

## Note 13 Number of employees

The average number of employees in 2021 was 426 FTE based on a 38-hour working week (2020: 430 FTE), of which working in foreign countries 0 FTE (2020: 3 FTE).

The employee benefits related to the members of the Management Board have been disclosed in Note 32 to the consolidated accounts, Number of employees and personnel costs.

## Note 14 Events after the balance sheet date

For subsequent events, see Note 34 to the consolidated accounts, Events after the balance sheet date.

## Note 15 Proposed result appropriation

In accordance with the Articles of Association and the dividend policy, the Management Board, after consulting the Supervisory Board, proposes to distribute EUR 0 million to the shareholder and to add EUR 420 million to other reserves.

| | 2021 |
|---|---|
| **Dividend** | |
| Dividend Vattenfall AB | – |
| **Total dividend to be distributed** | – |
| Result after taxation | 420 |
| Dividend proposal: Dividend to be distributed | – |
| **Amount to be added to other reserves** | **420** |

Amsterdam, 26 September 2022

Supervisory Board
Anna Borg
Anne Gynnerstedt
Jan Haars

Management Board
Martijn Hagens
Alexander van Ofwegen
Cindy Kroon

# Other Information

## Independent auditor's report

To: the general meeting and the supervisory board of Vattenfall N.V.

### Report on the financial statements 2021

#### Our opinion

In our opinion:

- the consolidated financial statements of Vattenfall N.V. together with its subsidiaries ('the group') give a true and fair view of the financial position of the group as at 31 December 2021 and of its result and cash flows for the year then ended 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;
- the company financial statements of Vattenfall N.V. ('the company') give a true and fair view of the financial position of the company as at 31 December 2021 and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

#### What we have audited

We have audited the accompanying financial statements 2021 of Vattenfall N.V., Amsterdam. The financial statements comprise the consolidated financial statements of the group and the company financial statements.

The consolidated financial statements comprise:

- the consolidated balance sheet as at 31 December 2021;
- the following statements for 2021: the consolidated statements of comprehensive income, cash flows and changes in equity; and
- the notes, comprising a summary of the significant accounting policies and other explanatory information.

The company financial statements comprise:

- the company balance sheet as at 31 December 2021;
- the company income statement for the year then ended;
- the notes, comprising a summary of the accounting policies applied and other explanatory information.

The financial reporting framework applied in the preparation of the financial statements is EU-IFRS and the relevant provisions of Part 9 of Book 2 of the Dutch Civil Code for the consolidated financial statements and Part 9 of Book 2 of the Dutch Civil Code for the company financial statements.

#### The basis for our opinion

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

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

#### Independence

We are independent of Vattenfall N.V. in accordance with the 'Wet toezicht accountantsorganisaties' (Wta, Audit firms supervision act), the 'Verordening inzake de onafhankelijkheid van accountants bij assuranceopdrachten' (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).

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

The annual report contains other information. This includes all information in the annual report in addition to the financial statements and our auditor's report thereon.

Based on the procedures performed as set out below, we conclude that the other information:

- is consistent with the financial statements and does not contain material misstatements;
- contains all the information regarding the directors' report and the other information that is required by Part 9 of Book 2 of the Dutch Civil Code.

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

By performing our 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 such procedures was substantially less than the scope of those procedures performed in our audit of the financial statements.

The management board is responsible for the preparation of the other information, including the directors' report and the other information in accordance with Part 9 of Book 2 of the Dutch Civil Code.

### Report on other legal and regulatory requirements

#### Our appointment

We were appointed as auditors of Vattenfall N.V. on 28 May 2021 by the supervisory board. This followed the passing of a resolution by the shareholder at the annual general meeting held on 28 May 2021.

## Responsibilities for the financial statements and the audit

### Responsibilities of the management board and the supervisory board for the financial statements

The management board 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
- such internal control as the management board 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, the management board is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, the management board should prepare the financial statements using the going concern basis of accounting unless the management board either intends to liquidate the company or to cease operations or has no realistic alternative but to do so. The management board should disclose in the financial statements any event and circumstances that may cast significant doubt on the company's ability to continue as a going concern.

The supervisory board is responsible for overseeing the company's financial reporting process.

### Our responsibilities for the audit of the financial statements

Our responsibility is to plan and perform an audit engagement in a manner that allows us to obtain sufficient and appropriate audit evidence to provide a basis for our opinion. Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error and to issue an auditor's report that includes our opinion. Reasonable assurance is a high but not absolute level of assurance, which makes it possible that we may not detect all material misstatements. Misstatements may arise due to fraud or error. They 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 the financial statements.

Materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

A more detailed description of our responsibilities is set out in the appendix to our report.

Utrecht, 26 September 2022
PricewaterhouseCoopers Accountants N.V.

Original has been signed by N. Hofstede RA

## Appendix to our auditor's report on the financial statements 2021 of Vattenfall N.V.

In addition to what is included in our auditor's report, we have further set out in this appendix our responsibilities for the audit of the financial statements and explained what an audit involves.

### The auditor's responsibilities for the audit of the financial statements

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 consisted, among other things of the following:

- 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 intentional override of internal control.
- 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.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management board.
- Concluding on the appropriateness of the management board's use of the going-concern basis of accounting, and based on the audit evidence obtained, concluding whether a material uncertainty exists related to events and/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 and are made in the context of our opinion on the financial statements as a whole. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Considering our ultimate responsibility for the opinion on the consolidated financial statements, we are responsible for the direction, supervision and performance of the group audit. In this context, we have determined the nature and extent of the audit procedures for components of the group to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole. Determining factors are the geographic structure of the group, the significance and/or risk profile of group entities or activities, the accounting processes and controls, and the industry in which the group operates. On this basis, we selected group entities for which an audit or review of financial information or specific balances was considered necessary.

We communicate with the supervisory board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

## Declaration of Compliance with the Code of Conduct for Suppliers and Metering companies operating under their responsibility

(hereafter: Code of Conduct for energy suppliers and metering companies)

*Regarding data available through small-scale consumption metering devices which are read remotely.*

Name legal entity: Vattenfall Sales Nederland N.V.
Statutory place of business: Amsterdam
Period: 1 January 2021 – 31 December 2021

Vattenfall Sales Nederland N.V. in Amsterdam uses data obtained from small-scale consumption metering devices which are read remotely with the purpose to provide a good performance of its services. In addition to the General Data Protection Legislation ("GDPR"), suppliers and metering companies operating under their responsibility in the Dutch energy sector, set up a Code of Conduct on the use, the capturing, the sharing and the storing of data obtained from small scale consumption measuring devices which are read remotely.

We hereby confirm that Vattenfall Sales Nederland N.V. in Amsterdam has fully complied with the rules and obligations as set out in the Code of Conduct for energy suppliers and metering companies during 2021.

Name legal entity: Powerpeers B.V.
Statutory place of business: Amsterdam
Period: 1 January 2021 – 31 December 2021

Powerpeers B.V.in Amsterdam uses data obtained from small-scale consumption metering devices which are read remotely with the purpose to provide a good performance of its services.
In addition to the General Data Protection Legislation ("GDPR"), suppliers and metering companies operating under their responsibility in the Dutch energy sector, set up a Code of Conduct on the use, the capturing, the sharing and the storing of data obtained from small scale consumption measuring devices which are read remotely.

We hereby confirm that Powerpeers B.V. in Amsterdam has fully complied with the rules and obligations as set out in the Code of Conduct for energy suppliers and metering companies during 2021.

Name legal entity: DELTA Energie B.V.
Statutory place of business: Middelburg
Period: 1 January 2021 – 31 December 2021

DELTA Energie B.V. in Middelburg uses data obtained from small-scale consumption metering devices which are read remotely with the purpose to provide a good performance of its services. In addition to the General Data Protection Legislation ("GDPR"), suppliers and metering companies operating under their responsibility in the Dutch energy sector, set up a Code of Conduct on the use, the capturing, the sharing and the storing of data obtained from small scale consumption measuring devices which are read remotely.

We hereby confirm that DELTA Energie B.V. in Middelburg has fully complied with the rules and obligations as set out in the Code of Conduct for energy suppliers and metering companies during 2021.

Amsterdam, 26 September 2022

Signed by
Martijn Hagens

# Annual Statement 2021 in the framework of the Heat Act

## Introduction

Heat supply company Vattenfall Warmte N.V. (VF Warmte) is part of the energy production and supply company Vattenfall NV.

## Shareholders as at 31 December 2021

The shares of VF Warmte are fully owned by Vattenfall Energy Sourcing Netherlands N.V., a 100% subsidiary of Vattenfall NV. From 1 July 2015 the Swedish state-owned Vattenfall AB owns 100% of the shares of Vattenfall NV.

## Supply areas

VF Warmte manages and operates large-scale heat networks in the provinces Gelderland, Flevoland, Noord-Holland and Zuid-Holland.

## License

Based on the Heat Act, heat suppliers are required to register heating networks with the Authority Consumer & Market (ACM) and apply for a permit for the supply of heat at the ACM. On 8 March 2016 the permit has been granted by the ACM.

## Tasks

The tasks of VF Warmte, which are based on the Warmtewet 2014 (Heat Act) and underlying ministerial regulations and decisions, have a regulated character and include: The distribution and delivery of heat to consumers with a connected load of up to 100kW at a legally established maximum price; ensuring the safety and reliability of the networks and connections. In 2020, the Warmtewet 2014 is updated. As result, collective heat contracts that connect multiple houses with one heat connection with a combined capacity above 100 kW are now also in scope of the Heat Act.

## Annual statement

This annual statement has been prepared based on the Heat act and the underlying ministerial regulations and decisions, which require to prepare separate financial information for each heat supply company as per 1 January 2014. Furthermore, these regulations require heat supply companies to publish an annual statement of their financial information. With this annual statement VF Warmte endorses this obligation.

The accounting policies and principles used in the annual statement are in accordance with the 2021 financial statements of Vattenfall NV and only includes the financial information of the operation of VF Warmte to which the regulation of the Heat Act applies, as VF Warmte also supplies non-regulated heat (supply of heat to consumers with a connected load capacity above 100kW). VF Warmte uses several allocation keys to allocate the total costs of VF Warmte to the regulated and non-regulated supply of heat. Variable purchase costs are allocated to the regulated and non-regulated activities based on the relative number of GJ sold to both customer groups. Fixed purchase costs and other costs are allocated based on the relative number of connections or the relative capacity of the connections.

The financial position and performance of VF Warmte have been included in the consolidated financial statements of Vattenfall NV. PwC has issued an audit opinion on the consolidated financial statements of Vattenfall NV (see page 61). Based on Article 2 403 BW VF Warmte is exempted from publishing independent financial statements. In relation to this, a liability statement as referred to in Article 2: 403 BW, is filed at the Dutch Chamber of Commerce.

## Financial information for 2021

The tables below represent the financial information for 2021, as far as it concerns the regulated supply of heat (heat to consumers with a connected load of up to 100kW).

## Income statement heat-supply

| Amounts in EUR million, 1 January - 31 December | 2021 | 2020 |
|---|---|---|
| Heating revenue | 147.6 | 131.2 |
| Power revenue | 1.9* | – |
| Amortization construction contributions | 8.5 | 7.7 |
| Other net sales | 39.7 | 53.9 |
| **Net sales** | **197.7** | **192.8** |
| | | |
| Heating cost of purchases | -57.5* | -50.7 |
| Other cost of purchases | -28.8 | -44.5 |
| Other external expenses | -43.4 | -37.3 |
| Personnel expenses | -29.9 | -27.3 |
| Other operating incomes and expenses, net | -1.2 | -1.5 |
| **Operating profit before depreciation, amortization and impairment losses (EBITDA)** | **36.9** | **31.5** |
| Depreciation | -30.2* | -26.6 |
| **Operating profit (EBIT)** | **6.7** | **4.9** |

## Balance sheet information heat-supply

| Amounts in EUR million | 31-dec-21 | 31-dec-20 |
|---|---|---|
| Property, plant and equipment | 505.1 | 452.9 |
| Construction contributions | -199.8 | -185.3 |

* As of 2021, part of the back-up and temporary heat production activities is integrated with the heat supply activities. As a result, the 2021 figures, do not include the internal heat purchase cost, but include the fuel and depreciation cost of these integrated production units. This change does not have impact on the EBIT, but results in a change in classification of cost between Heating cost of purchases and Depreciation.

## Explanation to the income statement

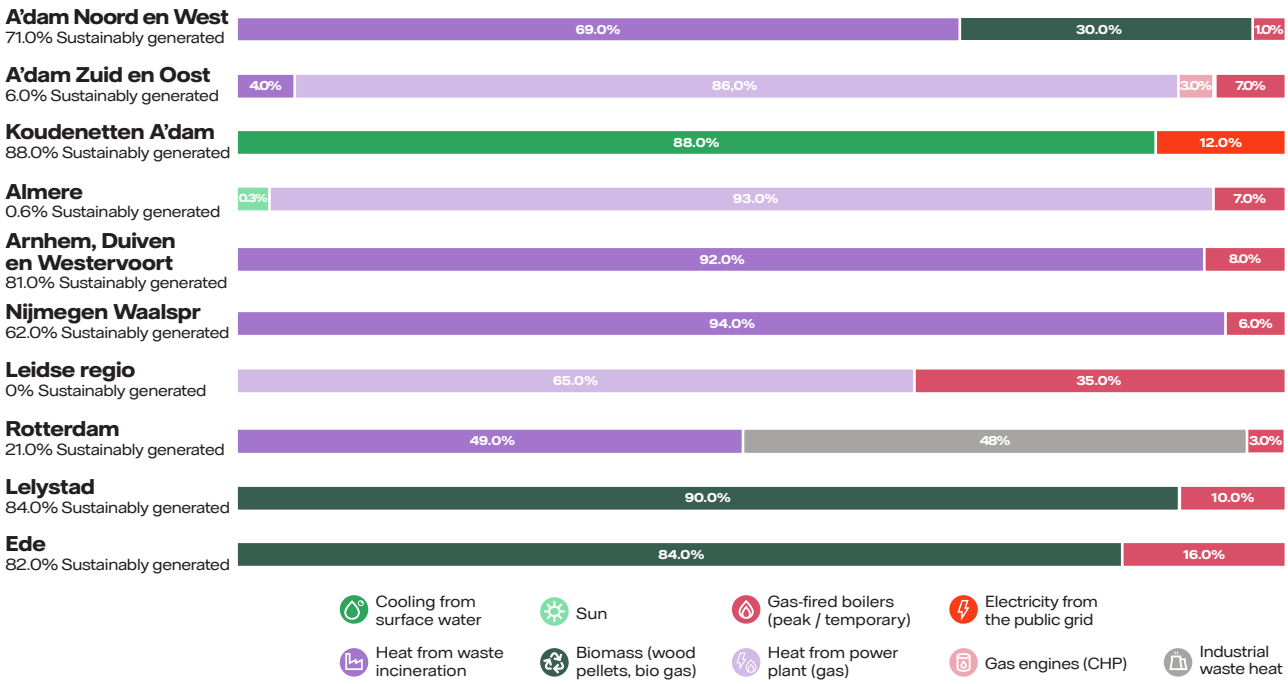
| Amounts in EUR million, 1 January - 31 December | 2021 | 2020 |
|---|---|---|
| **Breakdown of heating revenue** | **147.6** | 131.2 |
| a1. Heat consumption | 89.3 | 76.8 |
| a2. Hot water consumption | 6.2 | 6.2 |
| b1. Fixed fee heat supply and metering services | 41.7 | 38.4 |
| b2. Delivery kit | 10.4 | 9.8 |
| | | |
| **Breakdown of cost of purchases** | **-57.5** | **-50.7** |
| Variable heat purchase costs | -31.9 | -21.1 |
| Fixed heat purchase costs | -23.9 | -28.2 |
| Cold water purchase costs | -0.7 | -0.6 |
| Electricity purchase costs | -1.0 | -0.8 |
| | | |
| **Supplies** | | |
| Amount of heating supplied in GJs | 4,236.296 | 3,666.543 |
| Number of connections (<100 kW) | 128,111 | 125,559 |
| Amount of hot water supplied in $m^3$ | 1,081,344 | 1,068,702 |
| | | |
| **Purchase** | | |
| Purchased heat in GJ | 6,136,090 | 5,532,320 |
| Purchased cold water in $m^3$ | 1,081,344 | 1,068,702 |
| | | |
| **Purchase contracts according to Heat Act article 8** | 16 | 16 |
| Vattenfall Power Generation B.V. | Production and transport of heat | Production and transport of heat |
| Stichting VU | Production of heat | Production of heat |
| Vattenfall Warmte N.V. department Generation Operations | Production of heat | Production of heat |
| Vattenfall Duurzame Energie N.V. | Production of heat | Production of heat |
| AVR Afvalverwerking B.V. | Production of heat | Production of heat |
| Eneco Warmte en Koude Leveringsbedrijf B.V. | Production and transport of heat | Production and transport of heat |
| Veolia Industriediensten B.V. | Production of heat | Production of heat |
| ARN B.V. | Production of heat | Production of heat |
| Indigo B.V. | Transport of heat | Transport of heat |
| Bio-Energie de Vallei B.V. | Production of heat | Production of heat |
| Bio-Warmte de Vallei B.V. | Transport of heat | Transport of heat |
| Primco BMC Lelystad B.V. | Production of heat | Production of heat |
| Warmtebedrijf Infra N.V. (Rotterdam – Hoogvliet) | Production and transport of heat | Production and transport of heat |
| Uniper Benelux N.V. | Production of heat | Production of heat |
| Warmtebedrijf Exploitatie N.V. (Leiden) | Production of heat | Production of heat |
| Warmtebedrijf Infra N.V. (Leiden) | Transport of heat | Transport of heat |

VF Warmte conducts transactions with subsidiaries of Vattenfall NV for the purchase of heat. Transactions with the parties classified as related parties are conducted at market conditions and prices that are not more favorable than the conditions and prices offered by independent external third parties. The transaction price for the purchase of heat from related parties is determined semi-annually in advance, based on forecasted commodity prices and related plant utilization. The list with purchase contracts includes the significant subsidiaries VF Warmte has transactions with. In addition VF Warmte receives internal charges for services delivered by related parties within the Vattenfall group.

VF Warmte performs construction activities and exploitation services for third parties. Revenues and costs related to these activities are part of the presented income statement as 'Other net sales' and 'Other cost of purchases'. The margin resulting from the work for third parties is part of the regulatory activities and contributes to the coverage of overhead expenses.

# District heating label 2021

## Energy sources by area




## Environmental impact per area

| | A'dam Noord & West | A'dam Zuid & Oost | Koudenetten A'dam | Almere | Arnhem, Duiven & Westervoort | Nijmegen Waalspr | Leidse regio | Rotterdam | Lelystad | Ede |
|---|---|---|---|---|---|---|---|---|---|---|
| **Renewable share[1]** | 71.0% | 6.0% | 88.0% | 0.6% | 81.0% | 62.0% | - | 21.0% | 84.0% | 82.0% |
| **Share of residual heat[1]** | 120% | 16.0% | - | 38.0% | - | 12.0% | 27.0% | 63.0% | - | - |
| **$CO_2$ reduction compared to HR gas boiler / compression cooling** | 75.0% | 59.0% | 65.0% | 59.0% | 79.0% | 67.0% | 38.0% | 77.0% | 77.0% | 76.0% |
| **$CO_2$ emissions kg / GJ delivery** | 14.8 | 24.8 | 9.3 | 24.2 | 12.7 | 19.1 | 37.2 | 14.0 | 13.8 | 14.2 |
| **Residual heat** | 21.0% | 21.0% | - | 32.0% | 23.0% | 31.0% | 21.0% | 32.0% | 36.0% | 33.0% |
| **Primary energy factor (HHV) per GJ delivery** | 0.20 | 0.48 | 0.18 | 0.48 | 0.19 | 0.29 | 0.73 | 0.23 | 0.27 | 0.28 |

1. Calculation method in accordance with "Report format Sustainability report for suppliers in the context of the Heat Act"

# Profit appropriation

Profit appropriation is governed by the Articles of Association of Vattenfall NV, which state that the authority to decide over the allocation of profits determined by the adoption of the annual accounts and to make distributions is vested in the General Meeting of Shareholders, with due observance of the limitations prescribed by law.