TenneT TSO B.V.

Annual Report 2020

Contents

About TenneT TSO B.V*. **3**

Management Board Report* **9**

Financial statements **27**

Consolidated financial statements 27

Notes to the consolidated financial statements 32

Company financial statements 65

Notes to the company financial statements 67

Other information **73**

Profit appropriation 73

Independent auditor's report 74

Glossary 81

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

About TenneT TSO B.V.

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

We are committed to secure supply, not only today, but also in the future. That is why we work together with our stakeholders and through partnerships to shape the future energy landscape. We believe that this requires a multidisciplinary decision-making process in which we do not only consider security of supply, but also how our decisions affect sustainability and affordability. There is a continuous balancing act between these three dimensions. We aim to make decisions that optimise trade-offs between them in the best way possible. Sometimes these dimensions even directly conflict with each other, which makes it difficult to find the right solution. To guide us on our path, we have developed an inspiring goal, a promise and clear starting points.

Our purpose

To connect everyone with a brighter energy future.

Our promise

Lighting the way ahead together.

Our strategy

Our strategy helps us drive the changes we believe are needed for the energy system today and tomorrow. Therefore, we've developed a strategy which consists of four pillars:

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

Our task

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

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

Our principles

The energy transition is a challenge that requires new ideas, new technologies and new behaviours that build on the strong foundations we have laid. It requires us to do things differently and to learn from each other, in all industries, because we know that we do not have all the answers ourselves. That is why we are happy to work together to share the knowledge and experience with which we can keep the lights on, so that we can design and deliver the energy system that we all need for tomorrow. We developed three principles which guide how we work together, also with all our stakeholders.

Connection

We are involved and work actively with other parties, with respect for opinions and differences. In the changing world, close collaboration with other TSOs, DSOs, customers, governments and regulators is becoming more and more important. This is not only on a national scale, but also on European level, for example in the offshore development and future sector coupling.

Ownership

We are accountable for our words, actions and decisions. Our offshore portfolio is an example how to bring sustainable energy into the European system.

Courage

We are honest, open and clear about what we think. We dare to make decisions, take initiatives and are willing to learn from mistakes. We embrace the European Green Deal and challenge the implementation where needed. We take action in joint EU projects as developing the North Sea Wind Power Hub and system studies together with Gasunie to identify what is needed for a future reliable energy system. In full-filling our tasks, bringing more renewable energy sources to the grid, we need to make decisions. Our focus is on the difficult and delicate balancing act of: sustainability, security of supply and affordability.

Stakeholders

- Customers
- Debt investors
- Employees
- Governments
- Local communities
- Media
- NGOs
- Other European TSOs
- Shareholders
- Suppliers

Input

Intellectual

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

Manufactured

Cables, lines, stations, offices and interconnectors

Human

Our skilled and motivated people

Natural

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

Financial

Regulatory return
(Green) Financing

Social and relationship

Strategic partnerships and our engagement with (project) stakeholders

How we create value

- Energise our people and organisation
- Secure supply today and tomorrow
- Drive the energy transition
- Safeguard our financial health

To connect everyone with a brighter energy future

How we operate

- Enable the energy market
- Designing the energy system
- Build the electricity grid
- Maintain the electricity grid
- Operate the electricity grid
- Enable the core activities

Output

Outcome & Impact

Deliver a high security of supply

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

Ensure critical infrastructure for society

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

Create a sustainable workplace

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

Create value to transition to a low carbon economy

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

Secure a solid financial performance and investor rating

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

Solve societal challenges with stakeholders and through partnerships

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

How we addressed the effects of the COVID-19 pandemic

As the pandemic struck, we quickly adopted all measures imposed by the Dutch government. As for many other businesses, emergency public health measures had a significant impact across our organisation. We adapt to the new circumstances and implemented innovative new ways of working to ensure business continuity with minimal disruption. We are proud of how our employees adapted to these new circumstances.

To coordinate our response and manage new routines to ensure our people stayed safe during the pandemic, TenneT put its risk management measures into action. Specialist teams were set up to handle the situation: a crisis team, a business continuity team and a 'plan ahead'-team.

What was the impact of COVID-19 on TenneT's strategy?

During 2020, less electricity was transported on our grid to large industries and DSOs. This was likely caused by reduced economic activity during the COVID-19 outbreak. We expect this effect to be temporary. When normal conditions return, the volumes on our grid are anticipated to increase in line with growing demand for electricity.

To secure supply today and tomorrow, our maintenance and construction projects are key. In this regard, the COVID-19 pandemic presented further challenges in 2020. For example, the limited availability of materials created some initial backlog in our maintenance schedule. By sharing and moving essential supplies between projects – such as steel for overhead lines – we tried to minimise disruption as much as possible. We reached out to all our contractors to keep in touch and help each other where possible, for example when bottlenecks occurred or planned deliveries had to be postponed. We appealed to all our partners to remain reasonable and flexible and supported them where possible.

Looking ahead, we might face possible delays to future projects as public health restrictions have made the usual planning and permitting process hard to sustain. This is particularly true for our onshore projects, where the permitting process relies on face-to-face stakeholder meetings in local communities. In line with government safety measures, all of these in-person meetings had to stop during the pandemic. Some of these can now continue online, but the knock-on effect from the delay in this essential pre-construction activity will pose challenges. We did however demonstrate good progress with online consultations in 2020.

We successfully held virtual tender meetings with potential suppliers. This is the first time we have virtually engaged with suppliers during a tender process. The success of the negotiations showed the possibility for this efficient way of working in the future, requiring less travel time and expense.

Despite the challenges in 2020 caused by the pandemic, we were determined to keep our investment portfolio on track. During the year, we maintained the momentum of our ambitious grid expansion and investment programme.

Closures and emergency health restrictions in some of the international ship yards where we construct our offshore platforms put the timescale of several projects under pressure. Fortunately these did not cause any critical delays. In many cases, our teams locked down on-site – staying away from their families on end to keep construction on track.

A fortuitous by-product of the restrictions imposed during the pandemic had a favourable effect on some elements of our CO_2-footprint, due to fewer people travelling to work and lower energy consumption at our offices.

During 2020, the pandemic impacted the roll-out of our new TenneT organisation. The inability for colleagues to meet in person was a particular challenge for the formation of new teams. However, the pandemic also provided an unexpected opportunity to accelerate the process of change, helping to embed new ways of working faster than might have been possible otherwise. For example, cross-border teams in the new organisational structure quickly adapted to remote working routines that foster virtual collaboration. Leaders of the new units – including leaders who had not previously led remote teams – have been trained in the skills of motivating and collaborating with their teams in a virtual setting.

Aware of the need to care for mental well-being during the pandemic, we are also providing training in the psychological aspects of people management, building empathy, self-awareness and psychological safety skills. Our onboarding and application process was brought online, so necessary vacancies could still be fulfilled.

As well as giving our employees the opportunity to improve their home office, we also paid attention to their personal circumstances. We are conscious that working from home involves specific challenges for different people, both physical and mental. Making sure our people stay connected with their colleagues and paying attention to work life balance and exercise are particularly important in the new reality. To facilitate this, we shifted our health and vitality initiative, Always Energy, into an online programme and provided webinars and real-time engagement to ensure the wellbeing of our colleagues was fully supported.

Forward looking statements on COVID-19

The general expectation is that the impact of the pandemic will decrease during 2021, especially with the roll-out of vaccinations. Up to now we consider ourselves fortunate that the effects are low, but the longer the lockdown scenario stays, it might have an impact on our business. We remain focussed on strengthening the resilience of our people and we will closely monitor developments. Looking ahead, the shift to virtual working has opened new possibilities for attracting talent. Being located close to one of our offices is no longer so essential, allowing us to draw on a broader geographic and more diverse talent pool. For example, we are now accessing labour markets in Spain, Romania, Poland and other European countries. To extend this opportunity, we are undertaking a new accelerator project in our People Unit to help us tap into new talent pools, with an emphasis on building a more attractive employer brand and using new communications techniques to connect with potential candidates.

Management Board Report

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

Our performance

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

Deliver a high security of supply

TenneT has a crucial role to fulfil for society. We are entrusted with transporting electricity and ensuring a secure and reliable supply of electricity 24 hours a day, 7 days a week and 365 days a year. This is what energises and connects everyone who works at TenneT.

Securing a reliable supply of electricity every day, around the clock is not an easy task. TenneT operates the grid in the Netherlands and as a European TSO, we are also connected with other grids in Europe via cross-border interconnections. These play an important role in strengthening the security of supply in the Netherlands.

With knowledge and experience built over the last decades, we are not only dedicated to secure the supply of electricity at present, but also far into the future.

The challenges of doing so are growing. There is an increasing appetite for and dependence on electricity and we operate in a more dynamic and volatile energy landscape, with a higher proportion of renewable energy sources coming into the grid. TenneT is ready to find solutions to these challenges, through the strength of our employees and partnerships with others.

Operating the grid to ensure a secure supply means constantly maintaining the balance between real-time supply and demand of electricity. In order to do this, we must plan days, weeks and months ahead to make sure that supply and demand are aligned. TenneT's team plan and manage this balance on a daily basis, tackling challenges as they arise.

One of these is the rising amount of renewable energy sources (RES) being connected to the grid. The infeed of renewable energy can be volatile. If more or less electricity than expected is provided, this can create additional challenges for our system operations teams and the market participants, such as generators, Balance Responsible Parties and customers. This occurred for example in June 2020, when we saw a steep increase of the RES in-feed into our grid and the grid of the DSOs. This required us to disconnect wind and solar farms to avoid overloading our 150 kV network in the Netherlands. To reduce the risk of this happening in the future, we are improving our weather forecasting tools to make our RES predictions more accurate.

Although we are proud of our high reliability level, there were still occasions when we experienced interruptions in our supply of electricity. One such instance occurred in March 2020, in our Eindhoven-West substation. Although the outage lasted only a few minutes it impacted almost 50,000 households.

Continuing security of supply also depends on our ability to expand and modernise our grid and keep it in the best possible condition. To perform essential maintenance work, planned outages are necessary for our people to work safely on our infrastructure. As our project portfolio grows, we need to be able to execute these planned interventions and outages more frequently. We also coordinate planned outages internationally, to ensure cross-border connections remain open at all times.

As well as securing supply for customers in our service areas in 2020, we are also focused on fulfilling our responsibility also in the future. An important requirement to achieve this in a fast-changing energy landscape is finding new sources of flexibility to balance demand and supply and manage grid congestions. Until now, flexibility has been mainly sourced from fossil fuelled power plants, which increases and decreases production depending on the power system's needs. However, as the share of renewables in our electricity mix is expected to continuously grow in the next decades fossil power plants will be less and less available for system and grid balancing. Hence, maintaining today's high level of supply requires the early development of alternative flexibility sources.

As well as making more efficient use of the markets to meet our flexibility requirements, we also pursue technological innovations. An example is the launch of our Equigy project in April 2020. TenneT, Swissgrid (the Swiss TSO) and Terna (the Italian TSO) formed a consortium to develop a standardised European electricity crowd balancing platform. Supported by blockchain technology, the platform allows TSOs to build flexible balancing reserve by tapping into the power stored in decentralised devices, such as electric vehicle batteries and heat pumps. By allowing TSOs to access the electricity stored in devices like these, consumers can take part in the energy system and be compensated accordingly. In December, the four founding TSOs established Equigy as a company.

With respect to the interconnection between Denmark and the Netherlands, the COBRA cable, a defect was discovered in September 2020. The defect is related to the sea cable. It was cut at a depth of 40 metres on the seabed and lifted up to find the exact fault locations and to replace them. Following this work, the COBRA cable was operational again at the beginning of 2021.

Ensure critical infrastructure for society

At TenneT, our unwavering task is to keep the lights on, to provide society with a secure and sustainable supply of electricity, while driving the energy transition and facilitating the European cross-border energy market.

Our extra high-voltage electricity grid forms the backbone of this mission. It transports electricity over long distances, providing essential power to homes and businesses across our region. With the materials and products we use to build and maintain our grid, such as our cables, stations and interconnectors, we create the critical infrastructure that people and businesses depend on every day.

In the years and decades ahead, the decisions we take to develop the onshore and offshore electricity grid will play a vital role in setting the pace of the energy transition. Connecting more and more renewable energy sources to the grid and safely transporting green electricity over vast distances is a technological and engineering challenge, and a mission that we are proud to fulfil.

Despite the challenges in 2020 caused by the COVID-19 pandemic, we were determined to do our utmost best to keep our investment portfolio on track. We sustained the momentum of our ambitious grid expansion and investment programme, continuing to meet the demands of the energy transition, while maintaining a secure and affordable supply of electricity. Our ability to stay on schedule, as much as possible, was also helped by bringing in flexible labour from abroad and by sharing and moving essential supplies – such as steel for overhead lines – between projects. With this level of logistical agility, our principles of ownership, courage and connection were truly demonstrated by everyone involved.

Of course, COVID-19 caused challenges and setbacks. Closures and lockdowns in some of the overseas ship yards where we construct our offshore platforms put the timescale of several offshore projects under pressure, but fortunately these did not cause any critical delays in 2020. In many cases, our teams locked down on-site - staying away from their families for weeks in order to keep our work on track. Strengthened by this determination in the face of adversity, we were able to complete and commission several key projects on budget and on time and we also began work on milestone projects for the future.

During 2020 we submitted our onshore and offshore investment plans to our regulator, the Authority for Consumers and Markets (ACM), which is a bi-annual requirement. These plans contain the measures and investments needed over the next years to keep the quality and transmission capacity of the electricity network in the Netherlands at the desired level.

The ACM approved the investment plan therewith confirming the need and necessity of these investments.ACM however also concluded that TenneT cannot solve its capacity bottle necks in due time. Consequently ACM reported in accordance with Article 22 of the Electricity Act to the Minister of Economic Affairs and Climate (EAC) that TenneT is not capable of timely realising its capacity investments. In its communication ACM explained the underlying causes and stressed the importance of all parties working together to facilitate TenneT (and the other grid companies[1)] to realise the investments on time.

[1] Liander, Enduris and Enexis were also confronted with the Article 22 notification.

The Dutch government is targeting further expansion of offshore wind energy in the North Sea. In its Offshore Wind Energy Roadmap, the government states that 10.6 GW of offshore wind farms are expected to be built and connected to the onshore grid by 2023. This would provide an amount of electricity equivalent to 40% of the current electricity consumption of the Netherlands.

Achievements in 2020

- In February, TenneT announced that two 2 GW offshore grid connections will be built in the IJmuiden Ver wind energy area, alongside the eight 0.7 Gigawatts (GW) AC grid connections already planned. Grid connections like this will be important to help the Netherlands achieve its target for 40% of all its electricity to come from offshore wind farms by 2030.
- In July, TenneT received the ‘Grid Readiness’ certification for Borssele Beta - a new high-voltage connection for the offshore wind farms Borssele III, IV and V off the southern coast of the Netherlands. It has a total capacity of 700 MW, equivalent to the electricity consumption of around 1 million homes. This essential project for the energy transition was completed one month earlier than planned, within budget.
- In the Northern Netherlands, TenneT is constructing a new 380 kV line between Eemshaven and Vierverlaten - Noord-West 380 kV. civil works started in 2020 and the first pylons were erected at the end of the year. Furthermore, civil works started for the Zuid-West 380 kV West project - a new 380 kV line to be constructed in the South West of the Netherlands.

Adequate maintenance is essential to operate our grid to its maximum capacity. We regularly assess if our assets are in the appropriate condition and perform maintenance, repairs and other activities until operational end of life is reached. The advanced application of data analytics, increases our ability to predict failures and thereby the effectiveness of our maintenance strategies.

We aim to apply this intelligent maintenance approach across our onshore and offshore operations. We are harmonising and integrating our maintenance strategies across different geographies and asset classes to make our overall approach more flexible and intelligent. Our maintenance strategy also focuses on maximising the efficiency of replacing end-of-life equipment at our ageing estate of substations. Our approach aims to keep our assets in the best operational conditions without needing significant down-time.

Create a sustainable workplace

To secure the supply of electricity and drive the energy transition, we rely on the dedication, passion and talent of our most important assets, our people: ‘People are the heart of TenneT’.

In recent years we have prepared our people and transformed our organisation so we are ready to meet the challenges society expects from us. We have re-imagined how we harness and nurture the talent of people, allowing them to perform at their best, with new ways of working and in a safe, inclusive and stimulating environment. Adaptiveness and innovation will be central to fulfilling our role in the green energy future, and our success will depend on our ability to attract and retain the best talent. We are changing our culture, streamlining our processes, sharpening our talent and performance management processes and building leadership that empowers, inspires and creates opportunities for growth and learning. This is why energising our people and organisation is an integral part of our strategy.

As of 1 July 2020, a new organisational structure came into being, together with a sharpened strategy and the first steps towards a renewed culture, guided by a new purpose, promise and principles. At the core of this transformation is a commitment to create a sustainable and rewarding workplace for our internal and external employees, empowering our people to perform at their best.

During 2020, the COVID-19 pandemic presented challenges. We adapted to help our people perform at their best, such as facilitating working from home by providing everybody with the opportunity to improve their home office. We were also conscious that working from home involves specific challenges for different people, physical and also mental. Making sure our people stay connected with their colleagues and paying attention to work life balance and exercise are all important in the new working reality.
To facilitate this, we shifted our mental and physical health programme, Always Energy, into an online programme and provided webinars and real-time engagement to ensure the well being of our colleagues is fully supported.

One of the most important ways to help our organisation achieve its strategic goals is to recruit the right people.
We currently need to hire a lot of people to keep pace with the growth of our business and the demands for our services. That is why we continue to recruit and also aim to bring out the best in our current workforce with additional training for their current role or to help them develop to new positions. This also helps to retain talent.

We are not alone in the need for talent, as other TSOs and players in the renewable energy business compete for the best people. The resulting skills shortage makes hiring enough people of the right quality a constant challenge.

However, it is a challenge that makes us think more creatively. The changing nature of our business - with more emphasis on data, for example - means we can hire from a broader pool. Today, mathematicians, economists, digital engineers and data scientists can find a role in our business in ways not previously possible.

The COVID-19 pandemic and resulting shift to virtual working has also opened new possibilities for attracting talent. Being located close to one of our offices is no longer so essential, allowing us to draw on a broader geographic and more diverse talent pool.

We believe that a diverse working environment – not only in terms of gender, religion, culture and socio-economic background, but also personality, experience and geographic backgrounds – helps us perform better and deliver better value for stakeholders and society. And for diversity to really show its power, it needs inclusion as a key building block. Encouraging diversity while promoting a culture of inclusion will help foster a culture of equal opportunity.

Our aim is to strengthen our focus on inclusiveness in all phases of the employee journey. This starts with our employer branding, to be an attractive employer for potential colleagues. Next to this we also aim to broaden our recruitment approach and are developing new ways to find the right talent.

We feel it's our responsibility to reach out to those who need extra support in the labour market, helping us to grow towards a workforce which fairly reflects the European society we serve. An example of this is our partnership with Rising You, where we support employment opportunities for refugee talent at our contractors. Attracting more talent in this way also helps TenneT. For example, our collaboration with Refugee Talent Hub in the Netherlands, led to TenneT providing work opportunities to 8 former refugee talents in 2019 / 2020, with 2 finding permanent employment with TenneT in 2020.

For TenneT, safety is a core business value. Every day we are aware of the risks associated with our activities and believe that every safety incident is one too many. TenneT wants every employee to return home safely at the end of each working day. We continue working with colleagues and contractors to avoid potential accidents. Four out of every five accidents occur with our contractors, as they perform most of the work in high-risk environments, such as on construction sites, and at sea.

To prevent accidents, we strive to constantly enhance our employees' safety awareness and devote ongoing attention to optimising our processes. To this end, our Executive Board signed a new Occupational Health and Safety (OHS) policy in August 2020. The policy includes adopting integrated risk-based approaches to safety, based on a continuous improvement process. Apart from prominent risks, softer OHS elements are included as well, like psychological safety (everybody should feel free to speak up), safety culture (having an open and pro-active safety culture within TenneT and its supply chain), and becoming a learning organisation (by sharing information on incidents and best practices to prevent incidents). To embed this comprehensive approach to safety and to make it part of our TenneT culture, we need strong safety leaders, who take ownership for safety, show courage and are connected. To embed this mind-set and new approach across TenneT, we intend to launch a new multi-year corporate Safety Leadership programme at the start of 2021 for all leaders at TenneT.

At the end of 2020 we determined new priorities with respect to safety, striving for more resilience. Next year we will operationalise this concept into practical approaches for our employees. Another initiative that further develops a strong safety culture in TenneT, was successfully passing the Safety Culture Ladder (SCL) follow-up audit. This means TenneT maintained its SCL level 3 certification in 2020.

Create value to transition to a low carbon economy

In order to fulfil our ambition to drive the energy transition, we aim to lead as a green and responsible grid operator. This does not only mean providing the renewable energy solutions that enable the transition – it also means reducing our own climate footprint and promoting sustainability throughout our supply chain.

Grid losses inevitably occur during power transmission and result from the difference between the energy fed into the grid and the withdrawal. Grid losses depend, among other things, on the current, the voltage, but also on the distance electricity is transported. The latter is increasing, as wind and solar electricity are often generated in remote areas, far from where most people consume it.

As such, there is a tension between grid-losses and the measures we take to drive the energy transition. They inevitably increase as we expand our grid and introduce more RES into the system. An alternative to expanding our grid is to make smarter use of it, but this also presents a paradox. While building less has clear environmental benefits, grid losses will grow if we utilise our existing assets at higher levels. Our policy to reduce our carbon footprint, therefore, is to 'green' our grid losses. This means we compensate for the electricity lost in transportation by acquiring an equal amount of electricity with renewable guarantees of origin. TenneT is compensating 100 % of the grid losses in the Netherlands via these guarantees of origin.

During 2020, we continued to reduce the carbon footprint of our substations with a goal to be climate neutral by 2025 . We do this for instance by taking lower climate impact into account in the design when replacing existing substations. An example of how we are addressing this is the project related to our 150 kV station in Etten. The facility is at the end of its life and needs to be replaced. As we do so, we are taking lower climate impact into account in the design, for example by using solar panels, better isolation and LED lighting. Plans were finalised this year and construction will start in 2021.

To reduce CO_2 emissions even further, we are taking steps across our supply chain by motivating contractors to reduce their footprint. For example, during the year we started testing a new certification process, requiring suppliers to demonstrate their carbon reduction measures. Furthermore, we integrated an environmental cost indicator (ECI) which allows us to calculate the CO_2 footprint directly into each project's cost evaluation. Having piloted this approach with some of our offshore contractors, we are now extending it further in our operations,

Sulfur hexafluoride (SF_6) is a gas used by TSOs to protect electrical power stations and distribution systems by interrupting electric currents. Although it is a highly effective circuit-breaker, insulator and extinguisher, it is also a powerful greenhouse gas, over 23,000 times more polluting than CO_2.

Although SF_6 accounts for less than 1% of our climate footprint, any leakage is damaging to the environment, which is why we continue to find ways to minimise and avoid them across our network. We are also aware of the growing environmental concern about the use of this gas and have accelerated our efforts to explore alternative solutions with pilot projects during 2020.

For example, in our Meeden station, we are testing the use of an alternative insulator gas. We motivate our suppliers to accelerate the exploration of alternative technologies. We toughened our approach to SF_6 in our Future of Offshore programme. This provides a roadmap for our offshore projects, setting out clear policies and working practices. As part of this, we are exploring the possibility to exclude SF_6 from bidders' proposals, requiring them to use alternative solutions.

Recycling materials and reducing waste is key to the growth of the circular economy. We share this commitment, with our circularity ambitions focused on minimising our use of scarce materials, re-using materials where possible, and reducing non-recyclable waste in our operations.

We need copper, steel, aluminium and many other raw materials to expand our grid. Although we must work with these materials, we aim to reduce our impact by increasing our focus on circularity. We focus on copper, as it is expected to become scarce in the near future and we have a high dependency on it in our operations.

In 2020, we took our first steps to report our circularity performance. This year will serve as a base year for measuring our progress, with a target to reduce the use of virgin copper and non-recyclable waste by 25% in 2025. Our aim is to reduce, re-use and recycle our waste as much as possible. For example, in our projects we separate sand, soil and concrete from construction sites so they can be recycled. From a circularity perspective, the materials left over at the end of one process can be the input for another. These materials also have a remaining value, so there is an additional incentive not to dispose of them. Unfortunately, we have not found solutions for all the materials we use, such as synthetic materials used to make temporary roadways on construction sites. We are in contact with our suppliers and look for partnerships to help reduce our non-recyclable waste.

To maximise circularity we need insight in our material usage in projects. Therefore we request material passports in our tenders. These record all raw materials used in a specific product, stating which include recycled and recyclable material. This way, the passport provides transparency of resource mix, and provides a basis to increase the circularity of product components. Working with our contractors, we aim to include a raw material passport system in all our new tenders, giving us a comprehensive view of circularity in our supply chain.

Unfortunately, we have an unavoidable impact on nature as we build, maintain and operate our assets in the natural landscape. However, we also aim to create positive impacts, such as promoting biodiversity at our substations and considering our impact on nature early in the process of realising a project. By doing so, we ultimately aim to have a zero net impact on nature.

We are pleased with the progress we made to create more positive impact on nature. TenneT is involved in a coalition called 'Groene Netten' comprised of companies that operate critical infrastructure in the Netherlands. Together, the coalition members manage over 922 square kilometres of ground and water with an impact on nature. This is related to more than 800.000 kilometres infrastructure. In 2020, Groene Netten has presented the 'ecologische hoofdinfrastructuur', a digital map which can be used to work together and increase biodiversity in our projects. This brings together data such as biodiversity hotspots, ground water levels and relevant GIS data to help identify opportunities for biodiversity protection.

We are taking a bio-diversity approach underneath our power lines, with so-called ''flower lines" of insect and bird-friendly planting. An example is our 'Honey Highway' undertaken in early 2020, this is a rich bio-diverse landscape along the 110 kV cable connection between Bolsward and Heerenveen, running for over 30 kilometres. After soil restoration work, flowers were sown on several strips. Many of these biodiversity projects are performed in co-operation with our project partners, such the project consortium (Siemens, Ganesa and Van Oord), Visser Smit Hanab and others.

In our offshore projects, we have a similar approach. For example, we are involved in a research project with a consortium of partners including Wageningen Marine Research and the Naturalis Biodiversity Center Nederland, in which we are studying the effects of electromagnetic fields from sub sea power cables on North Sea marine life.

For new offshore projects, we aim to have nature-inclusive design built into tender proposals. In 2020 we concluded a tender to build two new 700 MW offshore wind substations in the Dutch North Sea, Hollandse Kust Noord and Hollandse Kust Zuid. These are our first new offshore projects to incorporate nature-inclusive design, which will make them our most sustainable platforms when they become operational. Examples of nature-inclusive design are: fish hotels, artificial reefs, eco-friendly scour protection and ecological cable crossings.

Together with NGOs, such as the North Sea Foundation, we have come up with possible measures to improve biodiversity for marine life near and at our assets. We are currently including this element as part of our tender procedures and this concept will be used in the Hollandse Kust (Noord) offshore project – due to come on stream in 2023.

Have a solid financial performance and reputation

Providing the infrastructure that we need for a secure and reliable supply of electricity – today, and in the future – requires constant vigilance, efficient operations, and sustainable investments. Broad and sustainable access to financing is a prerequisite to implement our strategy and realize our investment portfolio. This requires a strong financial performance, a strong investor rating and a robust and reliable regulatory framework. That is why it is important to us to secure a sound financial future.

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

Results

In EUR million based on underlying financial information	2020	2019	Change	Change in %
Investments	1,281	1,133	148	13.1%
Revenue	1,167	1,038	129	12.4%
EBIT	238	211	27	12.8%

In 2020, revenue increased as a result of significant investments in new assets over the past years. The regulatory regime ensures that we are compensated for the depreciation of our investments and that we make a return on the capital invested in our regulatory asset base. In addition, the revenue increased due to higher OPEX offshore reimbursements due to the Income Decision by ACM.

Operating expenses mainly increased due to higher repair costs of the Cobra cable, higher insurance costs and higher personnel expenses. Depreciation costs increased due to increasing assets.

Underlying EBIT increased from EUR 211 million in 2019 to EUR 238 million in 2020. The increase in EBIT is due to an increase in revenue, partly offset by higher operating expenses and higher depreciation.

We continue to invest in our grid in order to maintain a high security of supply and to facilitate the energy transition. Capital expenditure (capex) totalled EUR 1,281 million in 2020 and increased by EUR 148 million compared to 2019 (EUR 1,133 million). The investments in 2020 for a significant part related to the following projects under construction: the Net on Sea (Borssele and Hollandse Kust) and the onshore projects North-West 380kV and South-West West 380kV.

The annual investment portfolio of TenneT will grow to EUR 1.5 to 2 billion over the next five years making TenneT a key contributor to the electricity infrastructure of the future. We expect that due to the investment portfolio the number of employees will also increase in the coming years.

The financing of those investments is fully arranged through TenneT Holding B.V. TenneT Holding B.V. is in discussion with their shareholder and other stakeholders on alternative options to attract additional capital.

Solve societal challenges with stakeholders and in partnerships

At TenneT, we want to connect everyone with a brighter energy future. To do this, we aim to drive the energy transition, enabling the shift to renewable, fossil-free power. Ambitious climate targets require a social, political, economic and technical evolution, driven by collaboration and collective thought leadership. The challenge is too big for any player to tackle alone.

That is why we use the power of strategic partnerships to drive scalable solutions in fields like flexibility, integration of renewables (offshore wind and solar) and digitalisation. And because the energy transition requires a host of new skills and technologies, we are broadening our partnerships in new sectors, such as data, automotive and green hydrogen, and scaling up from pilots to full projects. This way, we trust to find the solutions we need for a green energy future. We don’t only draw on the power of partnerships to meet technological challenges – other forms of collaboration also help us meet our strategic goals to safeguard our financial health and energise our people and organisation.

A representative sample of our collaborative efforts is provided below.

Our aspiration is to drive, not just facilitate the energy transition. To do this, we aim to work with other ambitious players to find ways to transition to a low-carbon economy. To this effect, we are working on large-scale offshore wind integration, ways to reduce our environmental footprint and design the energy system of the future.

An accelerated deployment of large-scale offshore wind hubs in the North Sea is expected to play an important role in achieving the Paris climate targets and establishing the North Sea as Europe’s renewable energy ‘power house’ of the future. Our collaboration on the North Sea Wind Power Hub project exemplifies this vision. This partnership consists of Gasunie, Energinet and TenneT (and the Port of Rotterdam as a strategic partner). The project entails the evaluation and development of concepts for an internationally coordinated roll out of ‘hub-and-spoke’ power hubs in the North Sea. These will connect onshore energy markets with offshore wind power and use smart solutions to integrate wind-powered electricity into the onshore energy grid, including power to gas technology.

TenneT is a partner in the Smart Energy Showcases – Digital Agenda for the Energy Transition (SINTEG). This involves the creation of large-scale showcase regions that can be used to develop and demonstrate model solutions for a secure, efficient, and environmentally compatible energy supply. The programme is focused on building smart networks, linking energy supply and demand, and on innovative grid technology and operating strategies. It addresses key challenges of the energy transition, including the integration of renewables into the system, flexibility, digitisation, system security, energy efficiency and the establishment of smart energy systems and market structures. The project makes an important contribution to the digital transformation of energy supply and the overall energy transition.

TenneT is a member of MVO Nederland, a Dutch network of entrepreneurial businesses aiming to build a climate-neutral, inclusive and circular economy with fair supply chains. We are also part of a coalition called the Groene Netten, which is supported by MVO Nederland. Here we are working with companies that manage other critical infrastructure in the Netherlands, such as roads, rail, telecom, gas and electricity infrastructure. We work together on themes such as circularity and biodiversity. For more information on this, please refer to the chapter ‘Create value to transition to a low carbon economy.

Feeding volatile wind and solar power into the electricity system creates a complex challenge: keeping the grid balanced, while ensuring security of supply. Traditionally, TSOs have used fossil-fuelled power plants to provide the flexible power needed to keep the grid balanced. Now, they are looking for renewable sources of flexibility. One innovative solution is to access energy stored in privately owned decentralised energy sources, like electric vehicles, home batteries and heat pumps. To harness the flexibility offered by these storage devices, TenneT has teamed up with other TSOs in Italy and Switzerland to create a European crowd-balancing joint-venture, called Equigy. The platform uses blockchain technology to register and validate a multitude of transactions with owners of distributed energy sources. It gives TSOs visibility of the flexible capacity offered by home-storage devices and allows them to manage the transactions securely. So far, Equigy has been launched in the Netherlands, Germany, Italy, and Switzerland, but it is a platform designed to accommodate a bigger scale. The plan is for it to progressively roll out in other European countries and discussions with other TSOs and partners (manufacturers of electric appliances and aggregators) are ongoing. For more information on Equigy: www.equigy.com.

TenneT works together with other TSOs in the European Network of Transmission System Operators for Electricity (ENTSO-E). This is a collaboration of 41 TSOs from 34 countries working together in key areas including establishing technical and market-related network codes, coordinating plans to develop European infrastructure and promoting technical cooperation between TSOs. As a member of ENTSO-E, TenneT is helping to build a more integrated European electricity market, contributing to a sustainable energy landscape, and ensuring electricity in Europe is affordable, sustainable and secure.

We are hiring refugee talent in the Netherlands and Germany providing apprenticeships and vocational training to them. To find qualified refugee talents in the Netherlands, we partnered up with the Refugee Talent Hub and TENT Partnership – both initiatives linking refugee talent and employers, with paid employment as the goal. The Refugee Talent Hub and TENT Partnership provide a network, bringing affiliated employers into contact with job-seeking newcomers through small-scale, customised meet & greet meetings. In 2019 / 20 TenneT Netherlands gave 8 newcomers work opportunities, with 2 finding permanent employment with TenneT in 2020. TenneT Netherlands provided a learning path (‘opleidingstraject’) for these 8 refugee talents to learn more about the company and gain insights into the working culture in the Netherlands. In addition to this learning path for newcomers, their leaders and teams have been coached to be more inclusive and understand the cultural background of refugee talent.

Sharing expertise and insights with educational institutes plays an important part in building knowledge for our sector and also educating the new generation of technical talent. In the Netherlands we collaborate with Netbeheer Nederland in the MBO-Covenant Klimaattechniek. This is a collaboration between the educational sector, government and grid operators and includes agreements to create more training positions and job guarantees for technical MBO students. By creating more opportunities for technical talent, we hope to alleviate the skills shortage in the energy sector. TenneT is further tapping into talent of the future as the founding sponsor of the Integrated High-Voltage Laboratory at TU Delft. Through this, TenneT can gain insight into the latest knowledge and research undertaken by Masters and PhD students.

Risk Management and Internal Control

Risk management and internal control objectives

To actively apply and advance our risk management system, we periodically identify and continuously manage uncertainties (comprising risks and opportunities) affecting the realisation of TenneT's strategic and operational objectives. By applying top notch standards within TenneT's internal control system, we also enhance the efficiency and effectiveness of our day-to-day processes.

The key objectives of TenneT's risk and opportunity management and internal control system are:

- To identify and assess uncertainties with a potential negative or positive impact on strategic and operational (department, process and project) objectives
- To create risk awareness and an open culture of addressing risks and opportunities
- To provide a uniform risk management framework and tools, which enables the organisation to take risk based decisions founded on relevant, reliable and timely information to ensure efficient priority based resource allocation
- To provide transparency to the boards, internal and external auditors and shareholders so they stay informed about the most significant risks potentially impacting strategic objectives

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

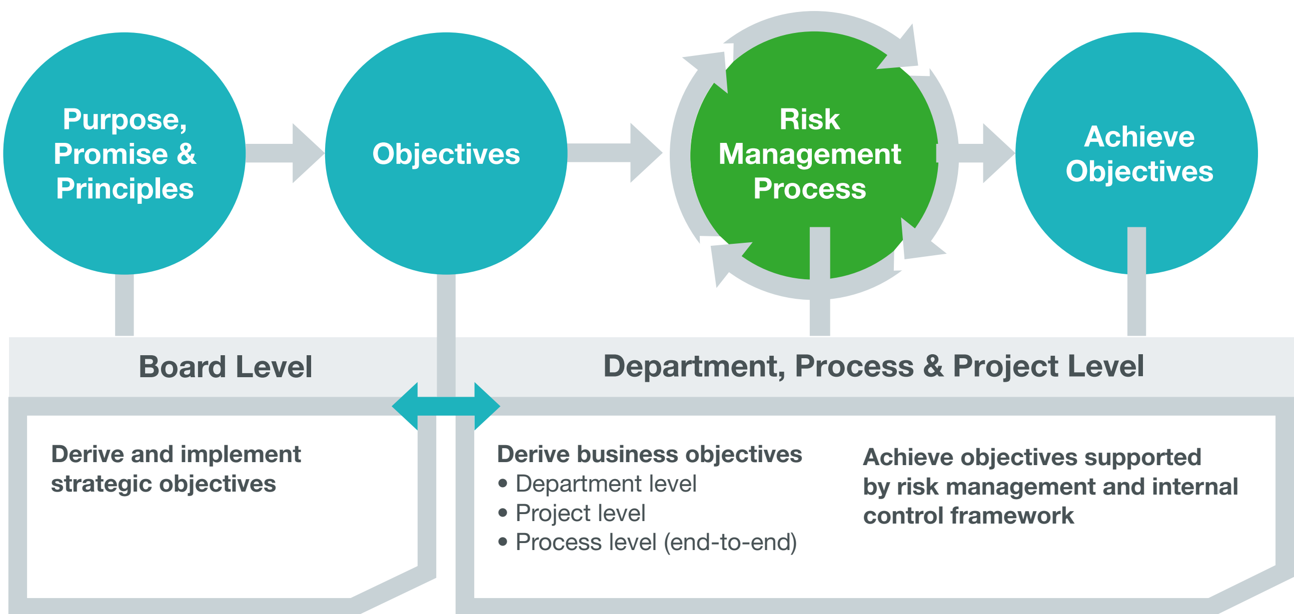
Risk management at TenneT is clustered in:

- Strategic risk management
- Operational risk management, including project risk management
- Process risk management (such as internal control)
- Other risk domains such as asset risk & portfolio management

TenneT regards the following factors as crucial to realise full value of risk management and internal control for the organisation. They are designed in line with stakeholder requirements and described in the corporate risk management policy:

- Structure: policies, IT-systems, reports, processes, etc.
- People: roles and accountabilities, profile, education and skills, etc.
- Competencies: risk culture and competencies at management level, etc.

Risk management and internal control



The principles of risk management should be taken into account in all activities performed at and for TenneT. Furthermore, at the heart of the governance system, risk management and internal control are interlinked with other second line functions and departments like risk transfer (insurances), business guidance, strategy & partnerships, safety & security, digital & process excellence, compliance & integrity and decentral specific risk management experts as well as third line functions, such as internal audit. Corporate risk management facilitates top down and bottom up dialogues and workshops as well as analysis on specific topics. The resulting outcomes provide management with insights to help take risk-based decisions that support the achievement of objectives set at all organisational levels.

Strategic risk management (SRM)

SRM focuses on future events and trends which may affect strategic objectives in positive or negative ways (risks vs. opportunities). Corporate risk management helps the Executive Board to derive and assess uncertainties and design risk response strategies. Furthermore, TenneT's strategic risk position is shared and discussed with the Supervisory Board and the Audit, Risk & Compliance Committee. Regularly, the project risk position is presented to project steering committees, the executive board and the supervisory board investment committee.

In 2020 the COVID-19 planning ahead team directly reported and interacted with the Executive board in short intervals. Thereby, workshops were organised between respective business departments and the executive board. Taking a forward looking approach, potential risk scenarios were analysed. Per July 2020 the new strategy team was implemented. So the strategic risk assessment at the end of 2020 was performed in collaboration.

Operational risk management (ORM)

Operational risks affecting the various business units and corporate departments are regularly updated and evaluated with the help of interviews and workshops with Senior Leaders to assess the adequacy of the responses, progress on mitigation actions, specific developments and the performance on management letter findings and control deviations. TenneT's corporate risk management & internal control team facilitates the organisation to review its risks, opportunities, related responses, progress on mitigation actions, developments of influencing factors and the business' performance on management letter findings and control deviations.

Project risk management (PRM)

To meet challenges arising from our investment portfolio and related objectives, TenneT started in 2008 to implement project risk management, first with a focus on large projects. PRM aims to boost the likelihood of realising project goals on time, on budget and with a high level of quality. For all large projects, dedicated project risk managers systematically review and manage risks together with project leads within the quality and uniformity standards safeguarded by corporate risk management. Project risk management has reached a high maturity level within TenneT and works closely together with project claims and contract management. In the last 5 years project risk management was extended to plan and perform maintenance works in the grid.

Risk & portfolio management

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

Internal control (IC)

Our internal control framework is designed to support and safeguard the realisation of our process objectives, as well as fulfil our legal obligations and establish the reliability of our internal and external reporting. To assess the effectiveness of this framework and identify opportunities for improvement, a control self-assessment is performed by control owners and validated by management twice a year. The risk management & internal control team performs quality assessments on the outcomes. Internal audit randomly checks selected control self-assessments during the year to form an independent opinion. The outcomes of these control self-assessments provide direct input for the Letter of Representation procedure. Identified issues are reported to the risk management & internal control team, which monitor and follow up on mitigating steps with the relevant business owners. Overall control effectiveness and the scope of TenneT's internal control framework are part of our bi-annual report to the Executive and Supervisory Board.

Compliance and integrity

As a result of a change in the “Besluit toezicht accountantsorganisaties” TenneT TSO B.V. is a Public Interest Entity (Organisatie van Openbaar Belang) as of 2020. This would require an audit committee at TenneT TSO B.V. level, however in line with article 3a of “Besluit instelling auditcommissie” it has been concluded that no separate audit committee is required at TenneT TSO B.V. level, since the governance by the Audit Committee at TenneT Holding B.V. level is considered to comply with the required good governance.

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

Under the new organisational structure applicable as of 1 July 2020, the Compliance & Integrity department, including the privacy officers directly fall within the remit of the CEO. During the course of the year, the team has been further extended with additional resources.

With a view on the new organisation structure, the scope of the compliance & integrity function has been aligned internally and other risk related areas have been clearly allocated to other units within the organisation. Furthermore, the corporate compliance organisation, roles and responsibilities, interfaces, processes and tools have been set out in a charter and framework, which has been endorsed by the Executive Board in December.

All these activities are aimed to have and maintain a compliance management system that is generally in line with the ISO 19600 standard. To enhance knowledge and awareness, together with the People unit, a training plan for company-wide compliance & integrity learning was developed, which will be rolled out as of 2021, and a communication plan was formulated.

TenneT has launched a new Code of Conduct; ‘The way we act’, which is shaped around the new Purpose, Promise and Principles. Closely related, the Speak Up business directive (formerly called Whistleblower policy) is entirely renewed and communicated. We stimulate our colleagues and stakeholders to speak up, address concerns with the leaders, trusted advisors or compliance & integrity and we also offer them a safe, secure and confidential portal where compliance and integrity concerns can be reported. In close cooperation with our Safety and Security unit, we have found the right balance in safeguarding data privacy, whilst being able to adequately manage and report on safety risks and incidents and the effects of the COVID-19 situation in our organisation.

All employees received invitations to e-learnings about REMIT, the European Regulation on Wholesale Energy Market Integrity and Transparency, and information security. All new employees received e-learnings about compliance & integrity, privacy and other general compliance & integrity topics, including safety & security as part of their online onboarding program, Empower online. As regards financial regulation, all so-called insiders have received information about their duties under the Inside Information business directive.

TenneT did not identify any fraud, bribery or corruption breaches which had a material impact in 2020. Material impact is defined in our risk matrix as a breach that has a significant adverse effect on TenneT’s reputation and/or financial position.

Risk appetite

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

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

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

Risk appetite and trend score

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

Key risks

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

Strategic risks

Deliver a high security of supply

In 2020 the COVID-19 pandemic was the main challenge to ensure a secure supply of power. It is likely to continue presenting challenges in 2021. In the first half of 2020, TenneT was able to prove its level of preparedness. However, the continuing public health measures and ongoing uncertainty about duration may lead to a critical increase of the sickness rate (physical and mental) within companies in the power supply chain.

Aside from COVID-19, the further increase in the infeed of renewables continues to present challenges for how we operate our grid in its current form. Essential investments are required to ensure our grid is future-proof and can facilitate the energy transition. We continue to develop new and innovative ways to improve our way of working to secure supply of electricity today and tomorrow. TenneT has defined and started multiple strategic initiatives to ensure the preparedness of the grid. Uncertainty remains on potential political decisions, on a national and/or European level concerning the phase out of conventional energy production and the future expansion of renewables. These changes may influence (re-)investment decisions of power producers, resulting in a shortage of electricity production and thereby reducing the options for TSOs in the connected European grid in the short term. However, in the long term, this should help the evolution of a green grid.

New technology plays a crucial role in mitigating risks related to security of supply. In particular, TenneT sees opportunities in the field of digitalisation and resulting possibilities in automation, robotics, prognosis and block-chain technologies to improve the utilisation of the grid, without increasing operational risk. In this regard, we are exploring the potential of big data to improve our capacity to predict the weather and assess levels of consumer demand. Sophisticated data analytics can also help us determine the condition of our assets and reduce demand on the grid at peak times by connecting decentralised batteries.

Technological innovation plays an important role in achieving the ambitions of the energy transition. Although there are many innovations in the energy sector, there are currently no decisive breakthroughs that will simultaneously guarantee security of supply, affordability for society and competitiveness of industry prices. It is not yet clear which technology developments hold the most promise.

We assume it will most likely be a mix of digitalisation, big data, market and price models, sector coupling, new types of cables, lines and other assets to transmit energy. As new technologies are introduced, either physical assets or software solutions, there could be an increased risk of outages caused by malfunctioning. TenneT demands high quality standards from its suppliers and service providers. As an additional measure, TenneT builds test procedures, test periods and guarantee periods into its project planning and supplier contracts. As such, TenneT is actively involved in defining standards and developing partnerships with market partners and suppliers.

In addition, cyber and terror risks remain an ongoing risk across our sector. To ensure we can handle cyber-related risks and any repercussions, we continuously work on understanding our cyber risks (and how best to handle them) in collaboration with internal and external allies. We have ISO 27001 certification for information security in place in Germany and underway in the Netherlands. We also carry out penetration tests and crisis management exercises every year.

Ensure critical infrastructure for society

Society and governments expect a swift transition towards renewable energy. To ensure secure supply today and tomorrow the execution of a large investment portfolio is essential. This portfolio consists of investments in new assets as well as replacing, repairing and maintaining existing assets. This presents a high workload for TenneT and our entire supply chain. We face scarcities in markets for materials, resources, services and other supplies. This situation is exacerbated by demands from other TSOs, DSOs and other infrastructural companies worldwide as well as by the lack of skilled staff available to us and our suppliers in the labour market. This may lead to increases in prices as well as delays in the realisation of our investment portfolio.

To cope with this, TenneT has updated its supply chain management and focuses among other things on new sourcing models. These include long-term partnerships accompanied by improved demand planning and standardisation, revising harmonised contract models and tender procedures. We also actively support the development of new technology, production facilities and the sourcing of alternative suppliers and service providers. Furthermore, we employ external project management service providers to staff construction projects in the onshore grid. To counterbalance a lack of internal resources, we pro-actively perform analyses to ensure adequate succession planning.

In a highly dynamic market, there is a certain risk associated with the emergence of new players who may overstretch themselves, fail or go out of business. This may also increase a risk of unreliable supplier support or unavailability of (spare) parts. To mitigate these risks, TenneT assesses the financial stability of suppliers and prescribes the long-term availability of parts and services as one of its contractual pre-conditions.

In addition, our engagement with stakeholders treads a fine line between societal and local interests. What is good for and desired by society is not always welcomed by the local communities affected by our projects. We communicate with a large number of stakeholders, assess different technological options, routing options, interdependencies of work packages between different projects and challenges in the political environment. Delays in licensing (especially mandatory permits issued by authorities) as well as challenges arising from the use of innovative technology (e.g. newly designed 525 kV DC cabling) can also cause delays in project schedules. TenneT mitigates these risks by identifying possible constraints and the cost of viable solutions in the early stages of the decision-making process, communicating transparently with regional stakeholders, working closely with authorities, enforcing high quality standards and closely monitoring our suppliers and deliverables. We are aware that we will not always meet the requirements from local opposition. The approval process is influenced by the wish to accelerate procedures but at the same time empower local authorities.

Certain environmental developments in Europe pose a challenge to us and may delay projects. These include various European government policies on perfluoroalkylated substances (PFAs) and nitrous oxide. This is embedded in our daily operation.

On the other hand, opportunities in this area, such as digitalisation, could reduce costs and help us achieve a secure energy transition. This may come with some strict requirements, not only regarding data security, but also especially for information management and human resources in terms of designing, developing, maintaining and operating systems. Therefore, TenneT continuously develops its IT capabilities, enhancing its organisation, training employees and reviewing the performance of IT service providers.

Looking ahead, we face possible delays to future projects as the COVID-19 pandemic has made the usual planning and permitting process difficult to sustain. This particularly holds for onshore projects, for which the permitting process relies on face-to-face stakeholder meetings in local communities. For public health safety, we were unable to have these face-to-face meetings due to the measures taken to stop the spread of the COVID-19 virus. Some of these can now continue online, but the knock-on effect from the delay in this pre-construction phase will pose challenges. We managed however to make good progress with online consultations in 2020.

Create a sustainable workplace

The scarcity of qualified short and long-term staff remains a key risk. To address this, we focus on tailored sourcing approaches and aim to build an image of TenneT as an attractive employer, as well as actively working on internal succession planning. We are interacting more with potential employees, actively participating in career events and reaching out to students during their studies. We are investing in our future talent pipeline, including initiatives to attract potential employees such as our International Trainee Programme and our High Voltage Trainee programme.

Our ever-challenging pipeline of investment projects and maintenance tasks inherently results in an increased risk of injuries and even fatalities. This also applies, perhaps to a greater extent, to the work of our suppliers. They might consider and apply safety values that are different to TenneT's. We continue to educate our contractors and subcontractors what safety means at TenneT, build awareness of this and to implement safety as one common goal.

Create value to transition to a low carbon economy

The decarbonisation of society has an impact on business, regulatory frameworks, financing, and the availability and prices of products and services.

National and European actions to achieve climate goals are becoming more concrete. Examples include the European Green Deal, setting new goals for renewable energy production, the use of (green) hydrogen and the stimulation of green and ethical investments. These factors are increasing the scale and pace of TenneT's investment portfolio and increasing the relevance of future projects, such as system integration with gas infrastructure.

When considering risks to our ambition as a green and responsible grid operator, we should consider the global economic and political context. These include a potential economic slowdown resulting from anti-pandemic measures, regulatory changes, geopolitical conflicts, financial market turmoil and rapid advances in technology. On a positive note, the new US administration has decided to return to an international consensus on climate targets, but 'trade "games"' may continue. A severe economic crisis could impact the current focus on climate change and energy transition. However, it currently seems more likely, that national and European-level investments in infrastructure projects might be used to stabilise the economy. Nevertheless, the affordability of projects could come under increased scrutiny, as could the question to what extent society is willing to accept the cost of the energy transition.

Due to the nature of TenneT's business, we must consider climate-related risks and opportunities in order to achieve our strategic goals. To this end, we have adopted the recommendations from the Taskforce for Climate-Related Financial Disclosures. We discuss climate-related risks and opportunities in workshops and dialogues with senior leadership and embed these elements into our strategy and risk procedures. An example of this is considering the impact of climate adaptation, including scenarios related to drought, flooding and more extreme weather events, such as in Noordwaard, where flooding submerged part of a pylon (Mast 58) on the 380 kV line between Krimpen aan den IJssel and Geertruidenberg. We designed a new steel base for the mast, coated to withstand water, and raised the pylon by 4 metres – all while maintaining the power supply. This has never been done before in the Netherlands. For more information on how we have assessed our climate related financial disclosures and opportunities, please refer to the Climate-Related risks and opportunities in this section.

Have a solid financial performance and reputation

Our revenues are predominantly dependent on the regulatory framework. The growing concern about the increasing cost of energy is putting more pressure on the reimbursement system. Adverse changes in the regulatory system might impact our financial performance.

The regulatory reimbursement schedules aims to allow TenneT to recover the efficiently incurred costs including a market based return. The regulatory methods underlying the revenue cap are typically established for a period of 3-5 years. The main risks for TenneT are that market returns are continuously decreasing as a result of the low interest environment on the capital markets and that it is increasingly difficult to accurately forecast efficiently incurred expenses for future periods as the past no longer reflects the future due to the significant developments in the electricity market.

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

Solve societal challenges with stakeholders and reputation

To be able to drive the energy transition and lead as a green grid operator, it is important to create societal acceptance of the energy transition. Lack of acceptance could lead to the inability to fulfil our ambitions and delay the transition to a low-carbon economy.

Societal acceptance of our infrastructure remains important. TenneT's construction and operation of substations, underground cables and transmission lines, and investments in sustainable energy solutions may affect a large number of people and interests. Because grid expansion projects take years to develop and cost billions of euros, the impact of project delays, difficulties or shutdowns may be significant.

The expansion of our high-voltage electricity grid may significantly alter landscapes in a way that can affect the livelihood of surrounding residents. The debate with respect to potential health risks related to our overhead transmission lines and magnetic fields is ongoing. As TenneT, our aim is to comply with rules and regulations and take sufficient caution in the construction and operation of our assets.

We are also currently working together with the respective authorities and other involved stakeholders to include their views as we are in the process of updating our policy with respect to magnetic fields.

In our view, forming long-term partnerships within and outside the TSO work field is an opportunity to drive the energy transition. Initiatives like integration of energy system, crowd balancing and big data need strong partnerships between several industries and local and national governments.

Regulatory risks

The following table details TenneT's most important regulatory risks.

	Regulatory risk	Risk-mitigating actions
General	• Inability to meet increasing efficiency targets imposed by incentive regulation, especially taking into account a strongly growing company and the need of investments in grid expansion and innovation.	• TenneT performs regular reviews of its processes and organisational structure and introduced lean management. TenneT also initiated strategic dialogues with ACM and industry partners/suppliers.
	• TenneT is unable to achieve a reasonable return on its invested capital as well as the full remuneration of operational costs as the regulated return continues to decline due to the low interest environment and stricter regulatory incentives.	• TenneT's strategy is to seek mutually acceptable results, however if needed legal action may be taken.
Europe	• The 'Clean Energy Package' (CEP) entered into force. It requires amongst others that TSOs provide to the market 70% of the total cross-border transmission capacity, an amount difficult to achieve without extensive and costly redispatch activities. The ACM approved a derogation of TenneT from the CEP and approved an action plan which gradually aims to fulfil the targets in the Netherlands by 2026.	• TenneT monitors compliance against the conditions of the derogation.
The Netherlands	• Regulatory returns in the Netherlands are under pressure due to low interest rate environment. This implies a weakening of operational cash flows in times when TenneT is investing heavily. This impact is aggravated in the Netherlands as a real WACC system is applied which effectively pushes profitability into the future, while being Net Present Value (NPV) neutral. Furthermore, the ACM plans to replace the estimated risk-free rate for the actual risk-free rate, which exposes TenneT to more variability in cash flows and in the short term is likely to have a further negative impact on returns due to the policy of quantitative easing of the European Central Bank.	• TenneT demonstrates that actual returns have not fallen as much as is expected in the methodology of ACM, therewith supporting its claim that the current method results in an understatement of the Return on Equity. Furthermore TenneT argues that ACM should also address the financeability of a TSO in its decision making, consequently TenneT argues in favour of a nominal WACC system, which is Net Present Value neutral for consumers.
	• The ACM has shared the preliminary decision on the application of the benchmark during a stakeholder group meeting in February 2021. ACM intends to gradually reduce TenneT's efficient cost level to 77.5% in 2025 and 2026, therewith respecting the grace period until 2025 which was granted in earlier method decisions.	• TenneT has prepared reports (shadow benchmark - based on the very same sample as ACM) to show that the 'low' efficiency score result from omissions in the model. Whilst ACM for now does not accept TenneT's argumentation, TenneT assesses, that it has a very strong legal position with evidence clearly showing that this score is understated.

Climate related risks and opportunities

The Taskforce for Climate related Financial Disclosures provide recommendations for companies to improve and increase the reporting of climate related financial information. We have followed up on their recommendations, also in our risk assessment process and have identified the following climate related risks and opportunities for TenneT, which we clustered below. Please note that there might be some overlap with risks also being mentioned earlier in the report, but this is to provide one structured overview in this section.

Climate related risks

Risks		How might this affect TenneT?	Risk mitigating actions
• **Transition risks**	• **Policy and legal risks**	• Policy and legal risks are related to our regulatory framework. Choices we make that can help society and us as a company to transition to a low carbon economy are subject to discussion with our regulator. Our regulatory framework is updated once every 5 years and this might pose a risk that if ambitions from governments in the areas we serve move faster than the spirit of the regulatory framework, this might be a constraining factor to drive the energy transition.	• We mitigate this by lobbying on national and European level, run pilot projects and present business cases and focussing on those topics, which promise the highest benefit for the society, which are integration of power and hydrogen as well as flexibility and grid utilisation together with partners.
	• **Technology risk**	• A risk of stranded assets might occur in case a new technology is developed which makes them obsolete.	• Mitigating actions include challenging the necessity of each investment and embrace other solutions, if those promise more societal value and actively work and invest in new technology as part of our strategy.
	• **Market risk**	• Our market risks relate to dealing with the higher infeed of renewable energy sources and impacting the way we balance our grid and market prices. Renewable energy sources are less predictable and cannot easily be increased in case of a higher demand. Differences in market prices can lead to too high requests for energy at one location, where not all energy can be transmitted to the users. In such situations additional measures are required to balance the grid, e.g. re-dispatch.	• TenneT plans and builds interconnectors within Europe and we investigate the grid integration of green hydrogen and power grids as well as improving the quality of data to predict power production and consumption.
	• **Reputation risk**	• A reputation risk could occur when we are unable to deliver on our strategic goal to drive the energy transition. Also, when realising our assets, we also have a reputational risk if there is a growing resistance from local communities and governments, if we do not engage with our stakeholders properly ("not in my backyard"). Furthermore the overall cost of the energy transition is also a risk from a reputational perspective (affordability).	• To mitigate this risk we aim to communicate in an open and transparent fashion. Next to this, we invite stakeholders in the planning and approval process of projects to voice their opinion which we consider in, for instance, the final route of a certain project. We also aim to balance affordability, sustainability and security of supply in all our investment decisions. Further mitigation takes place through the usage of professional planning, project management and costs forecasting.
• **Physical risks**	• **Acute**	• Acute risks are related to for instance (extreme) weather conditions that impact our assets.	• Acute weather conditions are mitigated during the design, construction and maintenance of our assets, e.g. choice of location and the choice of materials.
	• **Chronic**	• Chronic physical risks can relate to rising sea and ground water levels for instance, where our assets might bear a risk due to this.	• We monitor developments to gain more experience and insights related to the scenarios and effects. Examples include projects related to assets such as our Krimpen aan de IJssel substation and one of our pylons, which we both have elevated. • TenneT insures all substations and buildings during construction and operation against risks from natural catastrophes. Pylons and overhead-lines are not insured.

Climate related opportunities

Opportunities	How might this affect TenneT?
• **Resource efficiency**	• Innovation and further developments in renewable energy production facilities result in decreasing production costs and decreasing of levies. Additionally, stronger decentralized power production and storage including self-balancing micro grids can relieve high-voltage grids. Furthermore, DC-interconnectors enhance the transmission of power of very long distances and connect renewable power production and demands in different countries.
	• Solutions related to flexibility help us to make smarter use of our grid. This might have a positive effect on reducing our grid investments and expansion of our grid and with that, reducing the amounts of resources required for us to secure supply today and tomorrow.
• **Energy source**	• TenneT is a leading investor in the energy transition and so we have been able to gain a vast amount of experience connecting renewable energy sources, such as offshore wind, to our grid. This experience helps us to further drive the energy transition together with partners and fulfil the future investment portfolio.
• **Products and Services**	• Our project portfolio has significantly changed in order to meet national and European climate goals. Key projects are connecting offshore wind energy to our grid or to ensure that our onshore grid is prepared for a new energy future. The gathering and analysis of energy data may lead to new products and services provided by TSOs, such as TenneT.
• **Markets**	• Strategies and objectives of financial institutes, banks and especially the European central bank provide opportunities for TenneT to attract sustainable financing at favourable terms and conditions by issuing green finance products to fund and refund our investments in green infrastructure projects.
• **Resilience**	• Trends in the society, like the electrification of mobility result in higher demand on a stable grid and power supply. To ensure resilience integration of power and gas grids is a vital alternative. Digitalisation using technologies like automatization, robotics and block-chain will help to optimize grid utilisation while safeguarding a reliable supply of electricity.

Consolidated financial statements

Consolidated statement of financial position

For the year ended 31 December (EUR million)

Assets	Notes	2020	2019
Non-current assets			
Tangible fixed assets	8	6,733	5,746
Right-of-use assets	9	116	129
Intangible assets	10	144	109
Investments in joint ventures and associates	12	2	2
Other financial assets	13	59	383
Total non-current assets		**7,054**	**6,369**
Current assets			
Inventory	14	3	4
Account- and other receivables	15	263	151
Cash and cash equivalents	16	85	81
Total current assets		**351**	**236**
Total assets		**7,405**	**6,605**

Consolidated statement of financial position

For the year ended 31 December (EUR million)

Equity and liabilities	Notes	2020	2019
Total equity	17	**3,428**	**3,293**
Non-current liabilities			
Borrowings	18	2,700	2,114
Contract liabilities	19	323	286
Deferred tax liability	7	23	43
Provisions	20	176	74
Lease liabilities	9	104	125
Total non-current liabilities		**3,326**	**2,642**
Current liabilities			
Borrowings	18	-	75
Provisions	20	28	25
Other financial liabilities	22	85	79
Lease liabilities	9	13	6
Account- and other payables	21	525	485
Total current liabilities		**651**	**670**
Total equity and liabilities		**7,405**	**6,605**

Consolidated statement of changes in equity

For the year ended 31 December (EUR million)

	Notes	Paid-up and called-up capital	Share premium reserve	Retained earnings	Unappropriated result	Total equity
		17	17	17	17	
At 1 January 2019		**100**	**1,380**	**1,455**	**-13**	**2,922**
Total comprehensive income		-	-	-	-39	-39
Capital contributions	17	-	410	-	-	410
Appropriation remaining prior year result		-	-	-13	13	-
At 31 December 2019		**100**	**1,790**	**1,442**	**-39**	**3,293**
Total comprehensive income		-	-	-	135	135
Appropriation remaining prior year result		-	-	-39	39	-
At 31 December 2020		**100**	**1,790**	**1,403**	**135**	**3,428**

Consolidated statement of income and comprehensive income

For the year ended 31 December (EUR million)

	Notes	2020	2019
Revenue	3	**1,124**	**811**
Grid expenses	4	-447	-393
Personnel expenses	4	-105	-91
Depreciation and amortisation of assets	8, 9, 10	-272	-243
Other operating expenses	4	-101	-91
Other gains/(losses)		2	-1
Total operating expenses		**-923**	**-819**
Share in result of joint ventures and associates	12	1	-
Operating (loss)/profit		**202**	**-8**
Finance income	5	9	11
Finance expenses	6	-31	-42
Finance result		**-22**	**-31**
Profit before income tax		**180**	**-39**
Income tax expense	7	-45	-
(Loss)/Profit for the year		**135**	**-39**
Other comprehensive income (net of tax)		**-**	**-**
Total comprehensive income		**135**	**-39**

Consolidated statement of cash flows

For the year ended 31 December (EUR million)

	Notes	2020		2019	
Operational activities					
Operating profit			**202**		**-8**
Non-cash adjustments to reconcile operating profit to net cash flows:					
Depreciation, amortisation and impairment of assets	8, 9, 10	272		243	
Result on disposal of assets	8	-		2	
Share in profit of joint ventures and associates	12	-1		-	
Increase/(decrease) in deferred income	19	37		23	
Movements in provisions and other (financial) liabilities and assets		12		-4	
			320		**264**
Working capital adjustments:					
(Increase)/decrease in account- and other receivables	15	-112		-2	
(Increase)/decrease in inventories	14	1		1	
Increase/(decrease) in account- and other payables	21	-65		149	
Increase/(decrease) in current financial liabilities	22	6		8	
			-170		**156**
Net cash flows from operating activities			**352**		**412**
Investing activities					
Purchase of tangible and intangible fixed assets	8, 10	-1,179		-1,093	
Dividends received from joint ventures and associates	12	-		1	
Interest received	5	9		11	
Proceeds from repayment of financial assets	13	324		-	
Net cash flows used in investing activities			**-846**		**-1,081**
Financing activities					
Proceeds from capital contributions	17	-		690	
Proceeds from borrowings	18	586		-	
Redemption of loans	18	-75		-	
Payment of lease liabilities	9	-13		-11	
Net cash flows from financing activities			**498**		**679**
Net change in cash and cash equivalents			**4**		**10**
Cash and cash equivalents at 31 December	16	85		81	
Cash and cash equivalents at 1 January	16	81		71	
			4		**10**

Notes to the consolidated financial statements

We are continuously improving our financial reporting to make it more relevant and understandable to our stakeholders. These financial statements focus on the key (financial) topics for 2020. Unlike last year, the notes to the consolidated financial statements are disclosed following more or less the sequence of the balance sheet and profit & loss. Accounting policies are indicated with ⓘ, while key assumptions and estimates are identified by using in front of the header.

1 Basis for reporting

The accounting policies describe our approach to recognising and measuring transactions and balance sheet items in our financial statements. Accounting policies including new European Union (EU) endorsed accounting standards, amendments and interpretations, relating to the consolidated financial statements as a whole are described below. This section also provides general guidance regarding assumptions, estimates and judgements used in the preparation of the consolidated financial statements. A more detailed description of accounting policies and significant estimates related to specific reported amounts is presented in the respective notes. Accounting policies which are deemed non-material are not presented in these financial statements. We consider an item material if, in our view, it is likely to have an impact on the economic decisions of the primary users of these financial statements.

General

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

These consolidated financial statements for the year ended 31 December 2020 were prepared and authorised by our Management Board for issue on 8 March 2021. For regulatory, risk management and treasury activities TenneT relies on support from corporate departments of TenneT Holding B.V. These activities are executed under responsibility of the Management Board of TenneT TSO B.V. These consolidated financial statements have been audited by Deloitte Accountants B.V.

Basis for preparation

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

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

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

Changes in EU-endorsed published IFRS standards and interpretations effective in 2020

Significant new and amended standards adopted

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

The IASB made amendments to the definition of materiality in IAS 1 and IAS 8. The new definition reads: Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements. In line with the amendments we consider an item material if, in our view, it could reasonably be expected that the item has impact on the economic decisions of primary users of our general financial statements. The amendments to IAS 1 and IAS 8 are effective for annual periods beginning on or after 1 January 2020 and must be applied prospectively. The amendment did not have a significant impact on the financial statements of 31 December 2020.

IFRS standards issued but not yet effective and adopted

The IASB made an amendment to IFRS 16 Leases, to make it easier for lessees to account for COVID-19-related rent concessions such as rent holidays and temporary rent reductions.

The amendment exempts lessees from having to consider individual lease contracts to determine whether rent concessions occurring as a direct consequence of the COVID-19 pandemic are lease modifications and allows lessees to account for such rent concessions as if they were not lease modifications. It applies to COVID-19-related rent concessions that reduce lease payments due on or before 30 June 2021.

IFRS 16 specifies how lessees should account for changes in lease payments, including concessions. However, applying those requirements to a potentially large volume of COVID-19-related rent concessions could be practically difficult, especially in the light of the many challenges stakeholders face during the pandemic. This optional exemption gives timely relief to lessees and enables them to continue providing information about their leases that is useful to investors.
The amendment does not affect lessors.

The Amendment is effective for annual periods beginning on or after 1 June 2020.

TenneT made no amendment to its current lease contracts due to COVID-19 and is also not planning to do that. Therefore this amendment has no impact on TenneT.

Basis for consolidation

The consolidated financial statements incorporate the financial statements of TenneT TSO B.V. and its subsidiaries as at 31 December 2020. A list of the legal entities included in the consolidation is included in note 29. Subsidiaries are consolidated from the date of acquisition, that being the date on which control is obtained, and continue to be consolidated until the date when such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All intercompany balances, transactions, unrealised gains and losses resulting from intercompany transactions and dividends are eliminated in full in consolidation.

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

Significant accounting judgements, estimates and assumptions

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

Item	Note	Estimate/assumptions
Tangible fixed assets	8	Estimate of remaining useful life
Right-of-use assets and lease liabilities	9	Estimate of discount rate and expected extension or accelerated termination date
Intangible assets	10	Estimate of recoverable amount and remaining useful life
Provision for environmental management and decommissioning	20	Estimate of removal costs, removal dates, discount rate and price increases in the period leading up to removal

Foreign currency

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

Covid-19 impact

In March 2020 Europe was confronted with the outbreak of COVID-19. Several teams within TenneT were handling the situation: a crisis team, a business continuity team and a plan ahead team. We managed to keep our system operations, field operations and projects running in very good order, despite challenging conditions. During 2020, COVID-19 had no material impact on the financial figures of TenneT. We refer to 'Our performance in 2020' for further elaboration on the impact of COVID-19 on TenneT.

2 Underlying financial reporting analysis

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

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

Underlying financial information

Underlying financial information is based on the principle of recognising regulatory assets and liabilities for all of our regulated activities. This implies that amounts resulting from past events and which are allowed to be received or required to be returned through future tariffs are recorded as an asset or liability, respectively. TenneT's Executive Board believes that the presentation of underlying financial information provides additional relevant insight in the actual business, financial performance, and as such economic reality. Furthermore this reflects the regulatory regime.

ⓘ Accounting policies applied for underlying financial information

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

IFRS + **Regulatory Deferral Accounts** = **Underlying**

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

Furthermore, until 2015 some investments were financed via auction receipts resulting from auctioning available capacity on cross-border interconnections.

	2020			2019		
(EUR million)	Investments	Assets	Liabilities	Investments	Assets	Liabilities
TSO Netherlands	1,281	7,790	4,564	1,133	7,075	4,014
Consolidated underlying information	**1,281**	**7,790**	**4,564**	**1,133**	**7,075**	**4,014**

	2020		2019	
(EUR million)	Assets	Liabilities	Assets	Liabilities
TSO Netherlands	7,405	3,976	6,605	3,312
Consolidated IFRS information	**7,405**	**3,976**	**6,605**	**3,312**

IFRS investments are equal as underlying investments

For an analysis of the underlying results see the 'Financial performance' section of our Management Board report.

Regulatory deferral accounts: reconciliation to IFRS figures

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

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

Underlying financial information is reconciled to reported IFRS figures as follows:

(EUR million)	2020	2019
Connection and transmission services	907	872
Maintenance of the energy balance	52	43
Operation of energy exchanges	4	6
Offshore revenues	153	66
Other	51	51
Inter-segment	24	25
Total underlying revenue	**1,191**	**1,063**
Inter-segment adjustments and eliminations	-24	-25
Total underlying revenue from contracts with customers	**1,167**	**1,038**
Grid expenses	-447	-393
Other operating expenses	-483	-434
Share in profit of joint ventures and associates	1	-
Underlying earnings before income tax	**238**	**211**
Revenue adjustment to IFRS	-43	-226
Cost adjustment to IFRS	7	7
Operating profit	**202**	**-8**
Finance result	-22	-31
Profit before income tax	**180**	**-39**
Income tax expense	-45	-
Profit for the year	**135**	**-39**

	Reconciliation IFRS to underlying figures					
	2020			2019		
(EUR million)	IFRS figures	Underlying items	Underlying figures	IFRS figures	Underlying items	Underlying figures
Revenue	**1,124**	**43**	**1,167**	**811**	**226**	**1,037**
Grid expenses	-447	-	-447	-393	-	-393
Personnel expenses	-105	-	-105	-91	-	-91
Depreciation and amortisation of assets	-272	-7	-279	-243	-7	-250
Other operating expenses	-101	-	-101	-91	-	-91
Other (gains)/losses	2	-	2	-1	-	-1
Total operating expenses	**-923**	**-7**	**-930**	**-819**	**-7**	**-826**
Share in profit of joint ventures and associates	1	-	1	-	-	-
Operating profit	**202**	**36**	**238**	**-8**	**219**	**211**
Finance income	11	6	17	19	9	28
Finance expenses	-33	-10	-43	-50	-12	-62
Finance result	**-22**	**-4**	**-26**	**-31**	**-3**	**-34**
Profit before income tax	**180**	**32**	**212**	**-39**	**216**	**177**
Income tax expense *	-45	-4	-49	-	-46	-46
Profit for the year	**135**	**28**	**163**	**-39**	**170**	**131**
Profit attributable to:						
Equity holders of ordinary shares *	**135**	**28**	**163**	**-39**	**170**	**131**
Underlying items						
To be settled in tariffs		172			303	
Auction receipts		-94			-62	
Investment contributions		10			10	
Maintenance of the energy balance		-45			-25	
Revenue		**43**			**226**	
To be settled in tariffs		-			-	
Grid expenses		**-**			**-**	
Personnel expenses		-			-	
Depreciation and amortisation of assets		-7			-7	
Other operating expenses		-			-	
Other (gains)/losses		-			-	
Total operating expenses		**-7**			**-7**	
Share in profit of joint ventures and associates		-			-	
Operating profit		**36**			**219**	

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

To be settled in tariffs

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

Auction receipts & investment contributions

Auction receipts result from auctioning the available transmission capacity on cross-border interconnections. These receipts are not at our free disposal. In accordance with European law, auction receipts are to be used to invest in additional cross-border interconnections or to be refunded through tariff reductions. In the Netherlands, we have agreed with our regulator, Autoriteit Consumenten Markt (ACM) to fully utilise auction receipts to reduce future tariffs. The current outstanding balance of auction receipts will be refunded via the tariffs over the coming years. On 19 November 2019, an addendum to the original power agreement was signed. The agreements relate to the restitution of existing auction fees in order to limit the increase in net tariffs in 2020.

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

Maintenance of the energy balance

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

Depreciation and amortisation of assets

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

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

3 Revenue

Connection and transmission services

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

Maintenance of the energy balance

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

Operation of energy exchanges

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

Offshore revenue

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

Offshore revenue is regulated. Due to a regulatory decision in 2020, affecting the periods 2017-2020, an additional income pertaining to the years 2017-2019 ad EUR 29 million and additional income related to 2020 amounting to EUR 15 million has been recorded.

As of 2020, the offshore revenue are no longer presented as part of the connection and transmission services but as part of offshore revenue, impacting the line items offshore revenue and connection and transmission services in 2020 for EUR 149 million (2019: EUR 60 million).

ⓘ Accounting policy

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

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

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

Offshore revenues are accounted in accordance with the recognition and measurement principles of IAS 20. These revenues are not recognized until there is reasonable assurance that the Group will comply with the conditions attached to prerequisites for receiving this income.

Offshore revenues are accounted in accordance with the recognition and measurement principles of IAS 20. These revenues are not recognized until there is reasonable assurance that the Group will comply with the conditions attached to prerequisites for receiving this income.

4 Operating expenses

Grid expenses

(EUR million)	2020	2019
System services	110	109
Connection and transmission services	164	155
Maintenance of energy balance	49	43
Maintaining and operating transmission grids	130	98
Other	-6	-12
Total	**447**	**393**

System services expenses mainly comprise of the expenses incurred for measures taken to balance demand and supply of capacity.

Personnel expenses

(EUR million)	2020	2019
Salaries	124	111
Social security contributions	15	12
Pension charges other plans	22	18
Other personnel expenses	27	19
Capitalised costs for tangible fixed assets	-83	-69
Total	**105**	**91**

In 2020, the average workforce amounted to 1,610 FTEs (2019: 1,442 FTE's). Almost all employees work in the Netherlands.

For our personnel we have a multi-employer scheme at ABP Pension Fund (ABP) in the Netherlands. The pension contribution rate for 2020 was 17.43% of the pensionable salary. In 2021 we expect to contribute EUR 25 million to the multi-employer scheme administered. Compared to the total participants in the ABP pension fund, our share in ABP is limited. We are not liable for deficits in the multi-employer plan. ABP has indicated that it is unable to provide the kind of company-specific information required by IFRS for defined-benefit pension schemes. As such, this scheme is treated as if it was a defined contribution scheme. Since the financial situation of the ABP pension plan at 31 December 2015 was inadequate from a regulatory perspective, ABP filed a new recovery plan, which was approved by De Nederlandsche Bank (DNB) during the course of 2016. In accordance with this recovery plan, ABP evaluates how recovery is progressing at the start of each year. Progress is measured by means of the policy funding ratio at the end of the preceding year. The policy funding ratio is the 12-month moving average of the nominal funding ratio. ABP's policy funding ratio at 31 December 2020 is 93.2% (2019: 95.8%) which is above the critical regulatory coverage rate level under which pensions would have to be reduced.

Key management remuneration

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

Executive Board (EUR thousand)	Fixed	Variable	Pension cost	Total
2020	**534**	**-**	**103**	**637**
2019	442	69	90	601

Due to a refined cost allocation between the legal entities of TenneT Holding B.V., the total remuneration 2020 recharge for TenneT TSO B.V. increased by EUR 36 thousand.

The aggregate Executive Board remuneration comprises remuneration of statutory directors of EUR 625 thousand (2019: EUR 518 thousand) and remuneration of non-statutory directors of EUR 12 thousand (2019: EUR 83 thousand). Since March 2020 all members of the Executive Board are statutory directors. Pension remuneration equals (i) the contributions payable to the defined contribution plan for service rendered in the period or (ii), for defined benefit plans, the current service cost and, when applicable, past service cost. Remuneration paid to members of the Management Board in respect of supervisory directorships in affiliated entities accrues to the company.

Composition of the Management Board

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

ⓘ Accounting policy

Payments to defined contribution plans are charged as an expense in the period to which they relate.

Other operating expenses

(EUR million)	2020	2019
Accommodation and office expenses	28	25
Consultancy expenses	12	11
Hiring of temporary personnel	25	20
Travel and living expenses	4	6
Lease expenses	2	2
Other expenses	30	27
Total	**101**	**91**

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

The fees listed in the table below relate to the procedures applied to the Company and its consolidated Group entity by Deloitte Accountants B.V. The Netherlands (2019: EY network firms (including Ernst & Young Accountants LLP), the external auditor as referred to in section 1(1) of the Dutch Accounting Firm Oversight Act (Dutch acronym: Wta), as well as by other Dutch and foreign-based Deloitte individual partnerships and legal entities, including their tax services and advisory groups.

(EUR thousand)	2020	2019
Audit of the financial statements		
Deloitte Accountants B.V.	430	-
Ernst & Young Accountants LLP	-	307
Subtotal	**430**	**307**
Other assurance services		
Deloitte Accountants B.V.	256	-
Other Deloitte firms	80	-
Ernst & Young Accountants LLP	-	188
Subtotal	**336**	**188**
Total assurance services	**766**	**495**

The financial audit fees include the aggregate fees in 2020 and 2019 for professional services rendered for the audit of TenneT's Integrated Annual Report and annual statutory financial statements of subsidiaries or services that are normally provide by the auditor in connection with the audits.

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

ⓘ Accounting policy

We purchase electricity to supply our customers in The Netherlands and to meet our own energy needs. Substantially all our costs of purchasing electricity for supply to customers are recoverable at an amount equal to cost. The timing of recovery of these costs can vary between financial periods leading to an under- or over-recovery within any particular year that can lead to large fluctuations in the income statement. We follow approved policies to manage price and supply risks for our commodity activities.

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

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

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

5 Finance income

(EUR million)	2020	2019
Interest from participations	9	9
Interest from shareholder (TenneT Holding B.V.)	-	2
Other interest income	-	-
Total	**9**	**11**

ⓘ Accounting policy

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

6 Finance expenses

(EUR million)	2020	2019
Interest expenses borrowings shareholder (TenneT Holding B.V.)	43	49
Capitalised interest on assets under construction	-11	-9
Interest on lease liabilities	1	2
Other finance expenses	-2	-
Total	**31**	**42**

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

In 2020 the borrowings from the shareholder increased from EUR 2.1 billion to EUR 2.7 billion. But due to a lower average interest rate, interest expenses for borrowings from the shareholder decreased.

ⓘ Accounting policy

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

7 Income tax

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

The key components of income tax expense are:

Consolidated income statement (EUR million)	2020	2019
Current income tax charge	65	57
Relating to origination and reversal of temporary differences	-20	-57
Income tax expense reported in the statement of income	**45**	**-**

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

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

(EUR million)	2020	2019
Profit before income tax	**180**	**-39**
Statutory income tax rate of 25% (2019: 25%) (the Netherlands)	45	-10
Effect future tax rate change in the Netherlands	-	9
Non-taxable income	-	1
At the effective income tax rate of 25% (2019: 0%)	**45**	**-**

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

	Statement of financial position		Statement of income	
(EUR million)	2020	2019	2020	2019
Auction receipts	-80	-110	-31	-13
Investment contributions	-66	-60	6	2
Tariffs to be settled	23	50	27	-33
Depreciation for tax purposes	95	74	-20	-13
Provisions	5	3	-2	-
Net deferred tax assets/(liabilities)	**-23**	**-43**		
Deferred tax expense/(income)			**-20**	**-57**

Movement of the deferred tax position is set out below.

(EUR million)	2020	2019
At 1 January	**-43**	**-100**
Tax expense during the period recognised in statement of income	20	57
At 31 December	**-23**	**-43**

The fiscal unity did not have any tax loss carry forwards as of 31 December 2020.

ⓘ Accounting policy

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

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

Deferred tax is recognised using the liability method with respect to temporary differences between the tax bases of assets and liabilities and their respective carrying amounts for financial reporting purposes at the reporting date. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date in the relevant jurisdictions.

Deferred tax is generally recognised in respect of all temporary differences, the carry-forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised. This is assessed annually. Deferred tax is not recognised for the temporary differences arising from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered. There are no unrecognized carry forward losses per 31 December 2020 (2019: nil).

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

8 Tangible fixed assets

(EUR million)	High-voltage substations	High-voltage connections	Other assets	Assets under construction	Total
Cost					
At 1 January 2019	**2,276**	**2,617**	**288**	**1,785**	**6,966**
Additions	-	-	-	1,092	1,092
Transfers	643	791	33	-1,467	-
Internal transfer to/from (in)tangible assets	-	-	-	-26	-26
Changes in estimates (note 20)	8	17	-	-	25
At 31 December 2019	**2,927**	**3,425**	**321**	**1,384**	**8,057**
Additions	26	104	-	1,075	1,205
Transfers	287	470	16	-773	-
Disposals	-	-	-1	-	-1
Changes in estimates	-	19	-	-	19
At 31 December 2020	**3,240**	**4,018**	**336**	**1,686**	**9,280**
Depreciation and impairment					
At 1 January 2019	**935**	**1,035**	**132**	**-**	**2,102**
Depreciation for the year	95	89	23	-	207
Impairment	2	-	-	-	2
At 31 December 2019	**1,032**	**1,124**	**155**	**-**	**2,311**
Depreciation for the year	96	118	22	-	236
At 31 December 2020	**1,128**	**1,242**	**177**	**-**	**2,547**
Net book value:					
At 1 January 2019	1,341	1,582	156	1,785	4,864
At 31 December 2019	1,895	2,301	166	1,384	5,746
At 31 December 2020	2,112	2,776	159	1,686	6,733

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

In 2020 the discount rate for decommissioning provision is 0.1% for OWF connections (see note 20). Since the main part of the decommissioning provision was recognised as part of the carrying value of the related asset, changes in discount and inflation rate, if any, directly impact this carrying amount.

The amount of borrowing costs capitalised during 2020 was EUR 11 million (2019: EUR 9 million). The effective interest rate used to determine the amount of borrowing costs eligible for capitalisation is 2.1% (2019: 2.1%).

ⓘ Accounting policy

Tangible fixed assets are valued at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of the asset and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of the asset are required to be replaced at intervals, such parts are recognised as individual assets with specific useful lives and depreciated accordingly. Likewise, when a major maintenance is performed, its cost is recognised in the carrying amount of the asset as a replacement, if the recognition criteria are met.

All other repair and maintenance costs are recognised in the statement of income as incurred. The present value of the expected cost for the decommissioning of an asset after its use is included in the cost of the respective asset, if the recognition criteria for a provision are met. Depreciation is calculated on a straight line basis.

An asset is derecognised on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of income when the asset is derecognised.

General and specific borrowing costs directly attributable to the acquisition, construction or production of the tangible fixed assets, are added to the cost, until such time that the assets are substantially ready for their intended use or sale. No borrowing costs are capitalised where the borrowing costs are directly compensated in the year of construction.

Key estimates and assumptions

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

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

Residual values, useful lives and methods of depreciation of assets are reviewed at each financial year-end and adjusted prospectively, if appropriate. Per our annual review, the estimated useful lives of certain regulatory assets have been extended per 1 July 2020, resulting in a decrease of EUR 15.3 million in the current financial year. The annual effect for 2021 and beyond is expected to be approx. EUR 30 million in lower depreciation charges.

9 Right-of-use assets and lease liabilities

Right-of-use assets

(EUR million)	Land & buildings	Other right-of-use assets	Total
Cost			
Initital recognition IFRS 16	**83**	**26**	**109**
Additions	11	21	32
Depreciation	-8	-4	-12
At 31 December 2019	**86**	**43**	**129**
Additions	3	2	5
Depreciation	-7	-4	-11
Other movement	-9	2	-7
At 31 December 2020	**73**	**43**	**116**

Leased Land & Buildings

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

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

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

Other lease assets

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

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

TenneT had no material ‘sub lease’ contracts in 2020 and 2019 and therefore no material income from subleasing right-of-use assets. TenneT has not entered into any sale and leaseback contracts. No lease contracts with residual value guarantees are entered into. No lease contracts have been concluded that contain restrictions or covenants.

Short-term leases and low value leases

In some cases TenneT leases other assets with terms of 1-3 years. TenneT considers these assets to be of low-value or short term in nature and therefore no right of use assets and lease liabilities are recognised for these leases. The total of short-term lease expenses for more than one month and low value assets lease expenses amounted to EUR 1 million (2019: EUR 1 million).

Leased liability

(EUR million)	2020 Current	2020 Non-current	2020 Total	2019 Current	2019 Non-current	2019 Total
Lease liability Land & buildings	8	65	73	4	84	88
Lease liability other leases	5	39	44	2	41	43
Total	**13**	**104**	**117**	**6**	**125**	**131**

(EUR million)	Lease liability Land & buildings	Lease liability other leases	Total
Initial recognition IFRS 16	**84**	**26**	**110**
Addition	10	21	31
Interest	1	1	2
Repayments	-7	-5	-12
At 31 December 2019	**88**	**43**	**131**
Addition	3	2	5
Interest	1	1	2
Repayments	-8	-5	-13
Other movements	-11	3	-8
At 31 December 2020	**73**	**44**	**117**

The total cash outflow (including low value items and short term leases) in 2020 was EUR 13 million (2019: EUR 11 million). TenneT TSO did not commit to any future cash outflow of lease contracts.

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

(EUR million)	2020	2019
Depreciation expense of right-of-use assets	-11	-12
Short-term lease expenses	-1	-1
Interest expense on lease liabilities	-2	-2
Total	**-14**	**-15**

ⓘ Accounting policy

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

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

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

The lease liability is initially measured at the present value of outstanding lease payments, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, TenneT's incremental borrowing rate. If available, TenneT uses its incremental borrowing rate as the discount rate. Otherwise the used discount rates are shown below:

	2020	2019
Under 5 year	0.00%	0.00%
5-10 years	0.50%	0.50%
10-15 years	1.10%	1.10%
15-25 years	1.60%	1.60%
Above 25 years	2.00%	2.00%

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

Short-Term Leases and Leases of Low Value

TenneT has elected not to recognise right of use assets and lease liabilities for short-term leases (leases with a term of 12 months or less) and leases of low-value assets. TenneT recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

10 Intangible assets

(EUR million)	Goodwill	Software	Customer contracts	Other intangible assets	Intangible assets under construction	Total
Cost						
At 1 January 2019	**3**	**190**	**64**	**15**	**-**	**272**
Additions	-	-	-	1	40	41
Transfers	-	20	-	10	-30	-
Internal transfer to/from (in)tangible assets	-	-	-	-	26	26
At 31 December 2019	**3**	**210**	**64**	**26**	**36**	**339**
Additions	-	-	-	-	57	57
Transfers	-	35	-	-	-35	-
At 31 December 2020	**3**	**245**	**64**	**26**	**58**	**396**
Amortisation and impairment						
At 1 January 2019	**-**	**156**	**48**	**2**	**-**	**206**
Amortisation for the year	-	16	5	3	-	24
At 31 December 2019	**-**	**172**	**53**	**5**	**-**	**230**
Amortisation for the year	-	17	5	-	-	22
At 31 December 2020	**-**	**189**	**58**	**5**	**-**	**252**
Net book value:						
At 1 January 2019	3	34	16	13	-	66
At 31 December 2019	3	38	11	21	36	109
At 31 December 2020	3	56	6	21	58	144

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

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

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

Key estimates and assumptions

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

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

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

Impairment testing of goodwill
For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the CGUs (our operating segments) or groups of CGUs expected to benefit from the synergies of the combination. Each CGU or group of CGUs to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, an appropriate valuation model is used, if no recent market transactions can be identified.

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

11 Business combinations

ⓘ Accounting policy

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

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

12 Investments in joint ventures, joint operations and associates

Joint ventures and associates

We have, directly or indirectly, 50% equity stakes in Reddyn B.V., Tensz B.V. and TeslaN B.V.. These investments are classified as joint ventures. In addition TenneT TSO B.V. holds an immaterial investment in Energie Data Services Nederland (EDSN) B.V.

In 2020 we received EUR nil dividend from our associates and joint ventures (2019: EUR 1 million).

Joint operations

In December 2020, TenneT established Equigy B.V. as a joint operation together with the Swiss and Italian TSOs.

ⓘ Accounting policy

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

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

For investments in joint operations the following is recognised in relation to TenneT's interest in it:

- Assets, including its share of any assets held jointly;
- Liabilities, including its share of any liabilities incurred jointly;
- Revenue from the sale of its share of the output arising from the joint operation;
- Share of the revenue from the sale of the output by the joint operation;
- Expenses, including its share of any expenses incurred jointly.

The statement of income reflects our share of the results of operations of the investment. Any change in other comprehensive income of those investors is presented as part of the other comprehensive income. In addition, when there is a change recognised directly in the equity of the investment, our share of any change is recognised in the statement of changes in equity. Unrealised gains and losses resulting from transactions between us and the investment are eliminated to the extent of the interest in the investment. When an associate or joint venture distributes dividend to us in excess of our carrying amount, a liability is recognised if TenneT:
(i) is obliged to refund the dividend;
(ii) has incurred a legal or constructive obligation; or
(iii) made payments on behalf of the associate.

In the absence of such obligations, the excess in net profit for the period is recognised. When the associate or joint venture subsequently makes profits, this is only recognised when they exceed the excess cash distributions recognised in net profit plus any previously unrecognised losses.

After application of the equity method, we determine whether it is necessary to recognise an impairment loss on our investment in the joint venture or associate. At each reporting date, we determine whether there is objective evidence that the investment is impaired. If such evidence exists, the amount of impairment is calculated as the excess of the carrying value of the investment over its recoverable amount and recognised in the statement of income.

On loss of significant influence over the joint venture/associate, any retained investment is valued at fair value. Any difference between the carrying amount of the investment on loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in the statement of income.

13 Other financial assets

(EUR million)	2020	2019
Amounts due from other related parties	51	375
Other prepayments	8	8
Total	**59**	**383**

The Foundation for the Management of Allocated Funds from the National High-Voltage Grid (hereafter: ‘The Foundation’) holds a 10% investment in TenneT GmbH & Co. KG recognised at fair value. In order to protect the allocated funds and to ensure their immediate availability upon request from the Dutch regulator a put- and a call option have been emitted. The call option with an exercise price of EUR 51 million entitles TenneT Holding B.V. to acquire the investment from ‘The Foundation’. The put option has an exercise price of EUR 51 million and requires TenneT Orange B.V. to buy the investment for ‘The Foundation’ upon offer. The obligation of TenneT Orange B.V. is largely covered by means of a guarantee issued by TenneT Holding B.V.. The fair value of the participation amounts to EUR 59 million; the fair values of the options are EUR 0.14 million for the call option and nil for the put option.

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

ⓘ Accounting policy

Refer to note 26, accounting policies for financial instruments.

14 Inventory

Inventory was primarily composed of strategic stock. The provision for inventory is EUR 3 million (2019: EUR 3 million).

The fair value of inventory was not materially different from the carrying value.

ⓘ Accounting policy

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

15 Account- and other receivables

(EUR million)	2020	2019
Trade receivables	123	80
Amounts to be invoiced	45	34
Amounts due from other related parties	6	3
VAT receivable	-	7
Interest receivable	-	1
Other	89	26
Total	**263**	**151**

Trade receivables

			Past due but not impaired		
(EUR million)	Total	Neither past due nor impaired	0-30 days	31-60 days	More than 60 days
2020	**123**	**115**	**3**	**-**	**5**
2019	80	75	2	-	3

Changes in the bad debt provision are as follows:

(EUR million)	2020	2019
At 1 January	**12**	**11**
Charge for the year	-	2
Utilisation of provision	-1	-
Unused amounts reversed	-	-1
At 31 December	**11**	**12**

As at 31 December 2020, receivables with an initial value of EUR 1 million (2019: EUR 1 million) were fully provided for.

ⓘ Accounting policy

Refer to note 26, accounting policies for financial instruments.

16 Cash and cash equivalents

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

	2020		2019	
(EUR million)	Not at free disposal	Total	Not at free disposal	Total
Collateral securities	85	85	79	79
Cash at bank	-	-	2	2
Total cash and cash equivalents used in cash flow statement	**85**	**85**	**81**	**81**

ⓘ Accounting policy

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

17 Equity

Equity attributable to owners of the company

Paid-up and called-up capital

The Company's authorised share capital amounted to EUR 500 million (2019: EUR 500million), divided into one million shares of EUR 500 each. Of these shares, two hundred thousand shares have been issued and paid-up.

Share premium reserve

The share premium reserve consists of the capital contribution granted by the shareholder of ordinary shares, the Dutch State represented by the Ministry of Finance.

Unappropriated result and dividend distribution

The profit for 2020 is at the free disposal of the General Meeting of Shareholders.

18 Borrowings

(EUR million)	Effective interest rate	Maturity	Redemption schedule	2020	2019
Loan from shareholder (TenneT Holding B.V.)	1.81%	Dec-29	At maturity	2,700	2,114
Loan from related party	5.16%	Feb-20	At maturity	-	75
Non-current interest-bearing loans				**2,700**	**2,189**

TenneT TSO B.V. is financed through TenneT Holding B.V. As per 31 December 2020 the principal amount of the finance facility between TenneT Holding B.V. and TenneT TSO B.V. amounted to EUR 2.700 million (2019: EUR 2,189 million); a maximum facility has not been agreed upon. The facility matures after 10 years and is automatically extended in September of every year for another year, unless agreed upon otherwise. The facility has no financial covenants. The effective interest rate is equal to the cost of fund of TenneT Holding B.V. with a surcharge of +0.125%. TenneT TSO B.V. had no other credit facilities as at 31 December 2020 (2019: nil).

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

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

(EUR million)	(Non) -current interest-bearing loans	Total
At 1 January 2019	**2,189**	**2,189**
Cash inflow from new borrowings	-	-
At 31 December 2019	**2,189**	**2,189**
Cash inflow from new borrowings	586	586
Cash outflow from redemptions	-75	-75
At 31 December 2020	**2,700**	**2,700**

ⓘ Accounting policy

Refer to note 26, accounting policies for financial instruments.

19 Contract liabilities

The majority of the contract liabilities relates to investment contributions received from certain third parties for the construction of a new substation, a grid connection or increased connection capacity and amounted to EUR 323 million (2019: EUR 286 million). This increase was due to received contributions of EUR 41 million, a reclass of EUR 6 million from previous year minus EUR 10 million amortisation. The non-current part has a maturity up and til 2060.

ⓘ Accounting policy

Contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when TenneT performs under the contract. At initial recognition contributions received from third parties are measured at fair value, presented as contract liabilities ('investment contributions') and are subsequently recognised as revenue over the related asset's useful life.

20 Provisions

	2020			2019		
(EUR million)	Current	Non-current	Total	Current	Non-current	Total
Environmental and decommissioning	8	154	162	4	57	61
Tariffs related	12	-	12	14	-	14
Other	8	22	30	7	17	24
Total	**28**	**176**	**204**	**25**	**74**	**99**

(EUR million)	Environmental management and decommissioning	Tariffs related	Other	Total
At 1 January 2019	**9**	**14**	**21**	**44**
Addition	30	-	2	32
Utilisation	-3	-	-1	-4
Changes in estimations	25	-	2	27
At 31 December 2019	**61**	**14**	**24**	**99**
Addition	81	-	7	88
Utilisation	-	-	-2	-1
Changes in estimations	19	-2	2	19
Unused amounts reversed	-	-	-1	-1
At 31 December 2020	**162**	**12**	**30**	**204**

Provisions for environmental management and decommissioning

Provisions for environmental management and decommissioning serves to cover future obligations in relation to high-voltage connections and underground cables, and to cover the decommissioning costs. In 2020 EUR 100 million was added (2019: EUR 30 million) for future decommissioning costs for projects constructed during 2020. There was no decommissioning of substations in 2020 or 2019. The first decommissioning of an offshore grid connection is expected to start in 2041.

Tariffs related provisions

Tariff-related provisions mainly relate to provisions for system service fees. We charge electricity consumers a fee for system services performed. Following a change in law, the court in the Netherlands concluded that only parties with a direct connection to a grid maintained by a TSO are required to pay system service fees for the period prior to 31 December 2014. Consequently, we are required to refund amounts paid by certain parties to us without a direct grid connection. These refunds can be recouped through future tariffs. In 2020 and 2019 no material amount of the provided amount was paid out to consumers.

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

Other provisions

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

Accounting policy

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

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

Key estimates and assumptions

The estimated decommissioning provision involves 1) assessing decommissioning costs and 2) assessing the expected remaining useful life of the relevant asset. The main uncertainties to the decommissioning costs are the removal method (currently assuming reverse installation) and the uncertainties around equipment and vessel availability and market rates at expected time of decommissioning. At this point, there is also limited benchmark information available. This provision assumed a discount rate between 0.0% and 0.1% (2019: between 0.4% and 0.7%) and an inflation rate of 1.8% (2019: between 2.0% and 3.0%). A change in the discount rate of 1 percent point could have a maximum impact of EUR 33 million on the asset value and liability value.

A discount rate of 0.0% is applied for environmental management provisions (2019: 2.2%). A change in discount rate of 1 percent point could have a maximum impact of EUR 2 million on the related book value.

A discount rate of 0.0% was applied for other provisions (2019: 1.49%). A change in discount rate of 1 percent point could have a maximum impact of EUR 4 million on the related book value.

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

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

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

The uncertainties relating to the contingent liabilities make a reliable estimation of the financial impact impossible.

21 Account- and other payables

(EUR million)	2020	2019
Account payables	91	58
Grid expenses payable	48	36
Social securities and other taxes payable	27	15
Payables to other related parties	266	296
Other payables	93	80
Total	**525**	**485**

Other payables mainly comprise of personnel payables, accruals for which invoices are not yet received and investment related payables.

Accounting policy
Refer to note 26, accounting policies for financial instruments.

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

Accounting policy
Refer to note 26, accounting policies for financial instruments.

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

24 Financial risk management
Our business activities are exposed to a number of financial risks such as interest rate risk, credit risk, liquidity risk and refinancing risk, which are described in detail in this note. Our financial risk management strategy primarily focuses on protecting the liquidity, equity capital and net profit in order to safeguard our ability to continue active operations while providing an adequate return to our shareholders. Our approach to managing financial risks, including a number of specific disclosures (such as a maturity analysis of contractual undiscounted financial obligations) required by accounting standards, are set out in this note. For details about our regulatory risk we refer to the 'Risk Management' section of the Management Board report.

Risk management related to financing activities is conducted by our Treasury department under policies included in the Treasury Statute approved by our Management Board and Audit, Risk and Compliance Committee. Our financial risk management objectives, policies and processes remained unchanged in 2020 compared to 2019. The Treasury department's objective is to facilitate the realisation of our financial and strategic objectives from a funding and financial risk perspective. Our Management Board has approved the Treasury Statute. The Treasury Statute includes principles covering specific areas such as interest rate risk, liquidity risk, the use of derivatives, and the investment of excess liquidity. The use of all ordinary course financial instruments is permitted, provided these are used solely to cover open positions. Any speculative use of financial instruments is expressly not authorised.

Interest rate risk
We are exposed to interest rate risk on our debt portfolio. To limit the interest rate risk, our policy is to base the majority of our loan portfolio on fixed interest rates. As of 31 December 2020, the long-term loan portfolio was entirely based on fixed interest rates. An increase or decrease in interest rates of 2 percentage points would not result in a material increase or decrease in our net interest cost (applicable to 2020 and 2019).

Furthermore, there is a risk that interest payable on borrowings exceeds the interest compensation received by TenneT under the prevailing regulatory system. The ACM has set the relevant interest rate which will linearly decrease from 3.58% in 2016 to 2.29% in 2021. In 2022 a new regulatory period will start in the Netherlands.

Credit risk

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

Operational credit risk

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

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

The management of energy exchanges and the maintenance of the energy balance between supply and demand requires handling of large cash flows. TenneT's policies are aimed at minimising the risks associated with the clearing transactions of these cash flows.

Credit risk on trade and other receivables is limited, because most of our trade and other debtors have a low risk of default. Consequently, TenneT has no material collateral as security and no insurance for credit risk. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets disclosed in note 13 and 15. The movement of the allowance for expected credit losses of trade receivables is included in note 13.

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

Financial credit risk

In 2020 financial credit risk arose mainly from our transactions and positions with financial institutions. As at 31 December 2020, the maximum credit risk amounted to EUR nil (2019: nil).

In accordance with our treasury policies, counterparty credit exposure is monitored frequently against the counterparty credit limits. We have concentration limits in place when funds are placed on deposit or when financial derivatives are entered into.

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

Liquidity risk

Liquidity risk is defined as the risk that TenneT cannot meet its short-term financial obligations. TenneT's objective when managing liquidity is to be able to meet our short-term obligations at all times. The liquidity requirement was met on 31 December 2020 and 31 December 2019.

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

(EUR million)	Notes	<1 month	1 to 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
At 31 December 2020							
Lease liabilities	9	2	3	12	50	115	181
Borrowings	18	-	-	49	195	2,948	3,192
Account- and other payables	21	265	1	265	-5	-	525
Other financial liabilities	22	85	-	-	-	-	85
Total		**352**	**4**	**326**	**240**	**3,063**	**3,984**
At 31 December 2019							
Lease liabilities	9	1	2	11	48	132	194
Borrowings	18	-	78	46	182	2,345	2,650
Account- and other payables	21	187	1	296	1	-	485
Other financial liabilities	22	79	-	-	-	-	79
Total		**267**	**81**	**353**	**231**	**2,477**	**3,408**

The financing arrangement with TenneT Holding B.V. is such that management expects that all substantial adverse financial developments and events can reasonably be expected to be accommodated and that continuation of day-to-day operations is ensured for at least 12 months. No security interest over any of TenneT's assets has been provided.

We expect to meet our financial obligations for 2021 with (i) cash and cash equivalents, (ii) funds from operations (iii) unused credit facilities and (iv) capital market transactions provided by TenneT Holding B.V. We expect to meet our financial obligations for the subsequent years through various capital market transactions and equity contributions and intend to manage future refinancing risks by spreading the tenors of new financing arrangements.

Commodity price risk

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

Under IFRS, where these supply contracts are not accounted for as finance leases, they are considered to comprise two components, being a forward purchase of power at spot prices, and a forward purchase of environmental certificates at a variable price (being the contract price less the spot power price). With respect to our current contracts, neither of these components meets the requirement to be accounted for as a derivative. The environmental certificates are currently required for compliance purposes, and at present there are no liquid markets for these attributes. Accordingly, this component meets the expected purchase or usage exemption of IFRS 9. We expect to enter into an increasing number of these contracts, in order to meet our compliance requirements in the short to medium term. It is possible that in future, if and when liquid markets develop, and to the extent that we are in receipt of environmental certificates in excess of our required levels, this exemption may cease to apply, and we may be required to account for forward purchase commitments for environmental certificates as derivatives at fair value through profit and loss.

25 Fair values

The table below provides an overview of the carrying value and fair value of financial instruments, including IFRS treatment, and the level in the valuation hierarchy the instruments are measured at fair value.

		Carrying amount		Fair value		
(EUR million)	Notes	2020	2019	2020	2019	Hierarchy
Financial assets						
Loans and receivables						
- Account- and other receivables	15	263	151	263	151	Level 2
- (Other) financial assets	13	59	383	59	383	Level 2
- Cash and cash equivalents	16	85	81	85	81	Level 1
Total		**407**	**615**	**407**	**615**	
Financial liabilities						
Borrowings:						
- Borrowings	18	2,700	2,189	2,700	2,191	Level 2
- Account- and other payables	21	525	485	525	485	Level 2
- Other financial liabilities	22	85	79	85	79	Level 2
Total		**3,310**	**2,753**	**3,310**	**2,755**	

As at 31 December 2020, no instruments carried at fair value were held (2019: nil). Furthermore, we concluded that the fair value of the loans and receivables, cash and cash equivalents, account- and other payables, and other financial liabilities approximate their carrying amounts at year end 2020, due to the short-term maturities of these instruments.

The following hierarchy by valuation technique was used to calculate the fair value of assets and liabilities:

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

The fair value of the level 2 borrowings is based on discounted cash flows. A change in the assumptions used to calculate the fair value will not result in a significant different outcome. There were no transfers between the fair value hierarchy levels during 2020 or 2019.

26 ⓘ Accounting policies for financial instruments

Financial assets

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

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

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

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

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

Financial liabilities

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

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

27 Commitments and contingencies

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

(EUR million)	2020	2019
Off-balance sheet rights		
Bank guarantees received	352	308
Total off-balance sheet rights	**352**	**308**
Off-balance commitments		
Capital commitments	1,937	1,126
Operating lease commitments	-	1
Total off-balance sheet obligations	**1,937**	**1,127**

(EUR million)	2020	2019
Grid-related commitments	482	565
Guarantees issued	2	2
Other off-balance sheet commitments	37	50
Total off-balance sheet obligations	**521**	**617**
Off-balance sheet rights		
Government guarantees received	-	300
Total off-balance sheet rights	**-**	**300**

Bank guarantees received

At year-end 2020, TenneT TSO B.V. has received bank guarantees totalling EUR 352 million (2019: EUR 308 million) with respect to prepayments in relation to investment projects.

Capital commitments

At 31 December 2020, external commitments totalling EUR 1,937 million (2019: EUR 1,126 million) had been entered into with regard to the purchase of tangible fixed assets.

Grid related commitments

Grid-related commitments included the unused auction receipts in the Netherlands amounting to EUR 482 million (2019: EUR 565 million).

Guarantees issued

TenneT TSO B.V. issued bank guarantees for an amount of EUR 2 million (2019: EUR 2 million).

Government guarantees received

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

Other

Other off-balance sheet commitments mainly consist of:

- TenneT TSO B.V. is currently involved in a claim procedure because of alleged wrongful termination of construction contracts and in a counter claim procedure against this counter party regarding financial settlement & damages due to the alleged non-fulfilment of the construction contracts.

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

Various other off-balance sheet commitments and contingencies as well as other off-balance sheet rights existed but were immaterial from a disclosure perspective. The majority of these claims relate to (i) construction contracts and planning damage where additional payments would be capitalised, or (ii) claims relating to compensation for delays and interruptions where any compensation would be pass-through for TenneT or (iii) claims relating to refunds of transmission services, which would be compensated in future tariffs. In the unlikely event that these claims would prevail in court, this could have a material impact on the company's financials.

Environmental obligations

The Group is exposed to risks regarding environmental obligations arising from past activities. For example, a number of sites have to be decontaminated and restored to their original condition before being handed back at the end of the contractual period. Under current legislation, environmental plans and any other measures to be adopted have to be agreed with local, regional and national authorities as appropriate. As soon as such plans are approved or other legal obligations arise, a provision is formed based on the most reliable estimate possible of future expenses. The Management Board is of the opinion that the currently recognized provisions are adequate, based on information currently available. However, given the degree of difficulty in making estimates, this does not guarantee that no additional costs will arise going forward.

28 Related parties

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

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

Report in accordance with article 18 paragraph 3 of the electricity act 1998.
The relationship between TenneT TSO B.V. and its related parties within the TenneT Holding Group is compliant with the requirements of article 18 paragraph 1 of the electricity act 1998. The related parties perform the activities the transmission system operator is not allowed to in accordance with article 17a of the electricity act 1998. This implies TenneT TSO B.V. does not provide benefits to group companies which are not awarded to third parties nor does it provide group companies with other benefits exceeding normal trade practice. The following items are considered as benefits to group companies or awarding benefits exceeding normal trade practice:

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

Interest expenses has been charged by TenneT Holding and other group companies in total of EUR 45 million. Interest expensed has been charged to other group companies in total of EUR 11 million. Revenue is charged for a total of EUR 15 million to TenneT Germany and for EUR 8 million to other group entities. Other expenses charged by TenneT Germany for a total of EUR 9 million.

29 Consolidated subsidiaries

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

			Voting interest		Economic interest		
Subsidiary	Legal seat	Country	2020	2019	2020	2019	
B.V. Transportnet Zuid-Holland	Voorburg	Netherlands	100%	100%	100%	100%	*
CertiQ B.V.	Arnhem	Netherlands	100%	100%	100%	100%	
Nadine Netwerk B.V.	Arnhem	Netherlands	100%	100%	100%	100%	*
Saranne B.V.	Arnhem	Netherlands	100%	100%	100%	100%	*
Stichting Beheer Doelgelden Landelijk Hoogspanningsnet	Arnhem	Netherlands	100%	100%	N/A	N/A	

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

As TenneT is able to exercise direct control over its management and financial and operational policies, the consolidation includes the foundation Stichting Beheer Doelgelden Landelijk Hoogspanningsnet. This foundation temporarily manages funds arising from the maintenance of the energy balance and auctioning of capacity by TenneT TSO B.V.

30 Events after the reporting period

No significant events occured after the reporting date.

Company financial statements

Company statement of income

For the year ended 31 December (EUR million)

	Notes	2020		2019	
Revenue	32		**1,122**		**810**
Grid expenses	4	-447		-393	
Personnel expenses	4	-105		-91	
Depreciation and amortisation of assets	9, 36, 37	-272		-242	
Other operating expenses	33	-100		-91	
Other gains/(losses)		2		-2	
Total operating expenses			**-922**		**-819**
Share in (loss)/profit of joint ventures and associates		1		-	
Operating profit			**200**		**-9**
Finance income	34	10		11	
Finance expenses	35	-31		-42	
Finance result			**-21**		**-31**
Profit before income tax			**179**		**-40**
Income tax expense			-47		-
Profit from participating interests			2		1
Profit for the year			**134**		**-39**
Profit attributable to:					
Equity holders of ordinary shares			135		-39
Profit for the year			**135**		**-39**

Company statement of financial position

For the year ended 31 December (EUR million)

Assets	Notes	2020	2019
Non-current assets			
Tangible fixed assets	36	6,336	5,321
Right-of-use assets	9	116	128
Intangible assets	37	139	101
Investments in subsidiaries	38	606	603
Joint ventures and associates	12	2	2
Other financial assets	39	59	307
Total non-current assets		**7,258**	**6,462**
Current assets			
Inventory	14	3	4
Account- and other receivables	40	263	149
Cash and cash equivalents	16, 41	85	80
Total current assets		**351**	**233**
Total assets		**7,609**	**6,695**

Equity and liabilities	Notes	2020	2019
Equity			
Paid-up and called capital		100	100
Share premium reserve *		1,790	1,790
Retained earnings *		1,326	1,347
Revaluation reserve		22	33
Reserve for internally generated intangible assets		55	62
Unappropriated result		135	-39
Total equity	42	**3,428**	**3,293**
Non-current liabilities			
Borrowings	18	2,700	2,114
Contract liabilities	43	316	277
Deferred tax liability	44	40	58
Provisions	45	176	74
Lease liabilities	9	104	125
Total non-current liabilities		**3,336**	**2,648**
Current liabilities			
Provisions	45	28	25
Other financial liabilities	47	85	79
Lease liabilities	9	13	6
Account- and other payables	46	719	644
Total current liabilities		**845**	**754**
Total equity and liabilities		**7,609**	**6,695**

* In 2019 accidently a movement of EUR 36 million between share premium reserve and retained earnings was disclosed, leading to a share premium reserve of EUR 1,826 million and retained earnings of EUR 1,311 million not leading to a financial impact on total equity.

Notes to the company financial statements

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

31 Company accounting policies

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

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

32 Revenue

(EUR million)	2020	2019
Connection and transmission services	737	575
Offshore revenues	149	60
Maintenance of energy balance	97	68
Operation of energy exchanges	96	64
Other	43	43
Total revenue IFRS	**1,122**	**810**

33 Other operating expenses

Part of the other operating expenses is the total fee to EY network firms in 2019 and Deloitte network firms in 2020 For further disclosure regarding other operating expenses we refer to the consolidated financial statements (note 4).

34 Finance income

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

35 Finance expenses

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

36 Tangible fixed assets

(EUR million)	High-voltage substations	High-voltage connections	Other assets	Assets under construction	Total
Cost					
At 1 January 2019	**1,905**	**1,920**	**266**	**1,787**	**5,878**
Additions	-	-	-	1,092	1,092
Transfers	643	791	33	-1,467	-
Changes in estimations (note 20)	8	17	-	-	25
Internal transfer to/from (in)tangible assets	-	-	-	-26	-26
At 31 December 2019	**2,556**	**2,728**	**299**	**1,386**	**6,969**
Additions	26	123	-	1,073	1,222
Transfers	287	469	18	-772	2
Disposals	-	-	-1	-	-1
At 31 December 2020	**2,869**	**3,320**	**316**	**1,687**	**8,192**
Depreciation and impairment					
At 1 January 2019	**689**	**662**	**118**	**-**	**1,469**
Depreciation for the year	89	65	23	-	177
Impairment	2	-	-	-	2
At 31 December 2019	**780**	**727**	**141**	**-**	**1,648**
Depreciation for the year	89	98	21	-	208
At 31 December 2020	**869**	**825**	**162**	**-**	**1,856**
Net book value:					
At 1 January 2019	1,216	1,258	148	1,787	4,409
At 31 December 2019	1,776	2,001	158	1,386	5,321
At 31 December 2020	2,000	2,495	154	1,687	6,336

For disclosure regarding material movements we refer to note 8.

37 Intangible assets

(EUR million)	Goodwill	Software	Customer contracts	Other intangible assets	Intangible assets under construction	Total
Cost						
At 1 January 2019	**1**	**187**	**42**	**15**	**-1**	**244**
Transfers	-	19	-	11	-30	-
Additions	-	-	-	-	39	39
Internal transfer to/from (in)tangible assets	-	-	-	-	26	26
At 31 December 2019	**1**	**206**	**42**	**26**	**34**	**309**
Transfers	-	34	-	-	-35	-1
Additions	-	-	-	-	59	59
At 31 December 2020	**1**	**240**	**42**	**26**	**58**	**367**
Amortisation and impairment						
At 1 January 2019	**-**	**151**	**31**	**4**	**-**	**186**
Amortisation for the year	-	17	4	1	-	22
At 31 December 2019	**-**	**168**	**35**	**5**	**-**	**208**
Amortisation for the year	-	17	3	-	-	20
At 31 December 2020	**-**	**185**	**38**	**5**	**-**	**228**
Net book value:						
At 1 January 2019	1	36	11	11	-1	58
At 31 December 2019	1	38	7	21	34	101
At 31 December 2020	1	55	4	21	58	139

38 Investments in subsidiaries

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

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

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

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

39 Other financial assets

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

40 Account- and other receivables

(EUR million)	2020	2019
Receivables from other related parties	7	3
Trade receivables	122	80
Amounts to be invoiced	45	34
VAT receivable	-	7
Other	89	25
Total	**263**	**149**

'Other' increased mainly due to revenue to be received from offshore. Due to a regulatory decision in 2020, an additional revenue pertaining to the years 2017-2019 ad EUR 29 million and additional revenues related to 2020 amounting to EUR 15 million will be received.

41 Cash and cash equivalents

Refer to note 16.

42 Equity

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

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

(EUR million)	Reserve for internally generated intangible assets	Revaluation reserve	Total legal reserve
At 1 January 2019	**22**	**43**	**22**
Internally generated intangible assets	52	-	52
Depreciation on internally generated intangible assets	-12	-	-12
Depreciation revaluation tangible fixed assets	-	-11	-
At 1 January 2020	**62**	**33**	**95**
Internally generated intangible assets	55	-	55
Depreciation on internally generated intangible assets	-62	-	-62
Depreciation revaluation tangible fixed assets	-	-11	-11
At 31 December 2020	**55**	**22**	**77**

In addition to the statement of changes in equity, a legal reserve was formed within shareholder equity for a revaluation of EUR 22 million (2019: EUR 33 million).

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

The legal reserves are not freely distributable.

Appropriation of result for the year ended 31 December 2019

The annual report 2019 was approved in the General Meeting held on March 9, 2020. The General Meeting has determined the appropriation of result in accordance with the proposal being made to that end.

43 Contract liabilities

(EUR million)	2020	2019
Investment contributions	316	277
Total	**316**	**277**

44 Deferred tax liability

	Statement of financial position		Statement of income	
(EUR million)	2020	2019	2020	2019
Auction receipts	-81	-112	-31	-13
Investment contributions	-66	-60	6	1
Tariffs to be settled	24	51	27	-33
Accelerated depreciation for tax purposes	77	59	-18	-12
Provisions	5	3	-2	-
Other	1	1	-	-
Net deferred tax assets/(liabilities)	**-40**	**-58**		
Deferred tax expense/(income)			**-18**	**-57**

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

45 Provisions

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

46 Account- and other payables

(EUR million)	2020	2019
Payables to related parties	461	460
Accounts payable	91	58
Taxes and social securities	27	15
Other payables	140	111
Total	**719**	**644**

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

47 Other financial liabilities

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

48 Off-Balance sheet commitments

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

49 Events after the reporting period

Refer to note 30 of the consolidated financial statements.

Arnhem, 8 March 2021

Management Board of TenneT TSO B.V.

O.J. Jager
M.C. Abbenhuis
T.C. Meyerjürgens

TenneT TSO B.V.
Utrechtseweg 310
6812 AR Arnhem
Chamber of Commerce register 09083317

Other information

Profit appropriation

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

Independent auditor's report

To: the Shareholder and management of TenneT TSO B.V.

Report on the audit of the financial statements 2020 included in the annual report

Our opinion

We have audited the accompanying financial statements 2020 of TenneT TSO B.V. (the "**Company**" or "**TenneT**") based in Arnhem, The Netherlands. The financial statements include the consolidated financial statements and the company financial statements.

In our opinion:
- the accompanying consolidated financial statements give a true and fair view of the financial position of TenneT TSO B.V. as at 31 December 2020, and of its result and its cash flows for 2020 in accordance with International Financial Reporting Standards as adopted by the European Union ("**EU-IFRS**") and with Part 9 of Book 2 of the Dutch Civil Code; and
- the accompanying company financial statements give a true and fair view of the financial position of TenneT TSO B.V. as at 31 December 2020, and of its result for 2020 in accordance with Part 9 of Book 2 of the Dutch Civil Code.

The consolidated financial statements comprise:
1. the consolidated statement of financial position as at 31 December 2020;
2. the following statements for 2020: the consolidated statement of income, the consolidated statement of comprehensive income, changes in equity and cash flows; and
3. the notes comprising a summary of the significant accounting policies and other explanatory information.

The company financial statements comprise:
1. the company statement of financial position as at 31 December 2020;
2. the company statement of income for 2020; and
3. the notes comprising a summary of the accounting policies and other explanatory information.

Basis for our opinion

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

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

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

Materiality

Based on our professional judgement we determined the materiality for the financial statements as a whole at EUR 36 million. The materiality is based on 1.1% of the equity, as set out in note 17 of the consolidated financial statements. The applied percentage of 1.1% is at the lower end of the range reflecting this is our first year as auditors of TenneT. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for the users of the financial statements for qualitative reasons.

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

(i) TenneT TSO B.V. EUR 36 million;
(ii) Nadine Netwerk B.V. EUR 23 million; and
(iii) B.V. Transportnet Zuid-Holland EUR 23 million

For the other reporting entities, the component materiality used is EUR 18 million.

We agreed with the Supervisory Board of TenneT Holding B.V. that misstatements in excess of EUR 1.8 million, which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

Scope of the group audit

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

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

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

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

The group engagement team performed the audit procedures at all group entities.

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

Audit coverage	
Revenue	96%
Underlying operating profit	99%
Assets	99%

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

Scope of fraud and non-compliance with laws and regulations within our audit

In accordance with the Dutch Standards on Auditing, we are responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatements, whether due to fraud or error. Non-compliance with law and regulation may result in fines, litigation or other consequences for the Company that may have a material effect on the financial statements.

Consideration of fraud - Description
In identifying potential risks of material misstatement due to fraud, we obtained an understanding of TenneT and its environment, including its internal controls. We evaluated TenneT's fraud risk assessment and made inquiries with management, those charged with governance and others within TenneT, including but not limited to the functions (i) Internal Audit, (ii) Compliance & Integrity and (iii) Financial Governance & Services. We evaluated several fraud risks factors to consider whether those factors indicated a risk of material misstatement due to fraud. We involved our forensic specialists in our risk assessment and in determining the audit response.

Following these procedures, and the presumed risks under the prevailing auditing standards, we considered the fraud risks in relation to management override of controls, including evaluating whether there was evidence of bias by the Executive Board, the executive leadership team and other members of management, which may represent a risk of material misstatement due to fraud. Furthermore, we identified and considered the fraud risk related to classification of operational expenditure as capitalized expenditure due to the differences in related regulatory accounting and thus future revenues.

Consideration of fraud - Response
As part of our audit procedures to respond to these fraud risks:
- We made inquiries of management, those charged with governance and others within TenneT regarding the risk of material misstatements in the financial statements due to fraud, their process for identifying and responding to the risk of fraud, the internal communication regarding their views on business practices and ethical behaviour and whether they have knowledge of any actual, suspected or alleged fraud affecting the Company.
- We obtained an understanding of how those charged with governance exercise oversight of management's processes for identifying and responding to the risks of fraud in the Company and the internal control that management has established to mitigate these risks.
- We evaluated whether unusual or unexpected relationships have been identified in performing analytical procedures, that may indicate risks of material misstatement due to fraud.
- We held discussions amongst team members and component auditors to identify fraud risk factors and considered whether other information obtained from our risk assessment procedures indicated risks of material misstatement due to fraud.
- We determined overall responses to address the assessed risks of material misstatement due to fraud at the financial statement level or at the assertion level by:
  - assigning and supervising personnel with the adequate knowledge, skills and ability;
  - evaluating whether the selection and application of accounting policies by TenneT, particularly those related to subjective measurements and complex transactions, may be indicative of fraudulent financial reporting;
  - evaluating whether the selection and application of accounting policies by TenneT, particularly those related to subjective measurements and complex transactions, may be indicative of fraudulent financial reporting;
  - incorporating an element of unpredictability in the selection of the nature, timing and extent of our audit procedures which was achieved given this was our first year audit and TenneT did (thus) not have a detailed expectation of our audit approach;
  - testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;
  - evaluating whether the judgments and decisions made by management in making the accounting estimates included in the financial statements indicate a possible bias that may represent a risk of material misstatement due to fraud. Management insights, estimates and assumptions that might have a major impact on the financial statements are disclosed in note 1 of the financial statements. The provision for decommissioning was a focus area in our audit as the related account balances are subject to significant management judgment. Reference is made to the section "Our key audit matters";
  - performing a retrospective review of management judgments and assumptions related to significant accounting estimates reflected in prior year financial statements; and
  - evaluating whether the business rationale of significant transactions suggests that they may have been entered into to engage in fraudulent financial reporting or to conceal misappropriation of assets.

The procedures described are in line with the applicable auditing standards and are not primarily designed to detect fraud. Our procedures to address fraud risks did not result in a Key Audit Matter.

Because of the characteristics of fraud, particularly when it involves sophisticated and carefully organized schemes to conceal it, such as forgery, intentional omissions, misrepresentation and collusion, an unavoidable risk remains that we may not detect all fraud during our audit.

Consideration of compliance with laws and regulations

As part of obtaining an understanding of TenneT and its environment we obtained a general understanding of (i) the legal and regulatory framework applicable to TenneT and the industry in which it operates and (ii) how TenneT is complying with that framework. We assessed the laws and regulations relevant to the Company through discussion with management, those charged with governance and others within TenneT, including but not limited to the functions (i) Internal Audit, (ii) Compliance & Integrity, (iii) Legal Affairs, (iv) Regulatory Affairs and (v) Financial Governance & Services. We have read related minutes and reports. We involved our forensic specialists in our evaluation.

As a result of our risk assessment procedures, and while realizing that the effects from non-compliance could considerably vary, we considered adherence to (corporate) tax law and financial reporting regulations, the requirements under EU-IFRS and Part 9 of Book 2 of the Dutch Civil Code with a direct effect on the financial statements as an integrated part of our audit procedures, to the extent material for the related financial statements. We obtained sufficient appropriate audit evidence regarding provisions of those laws and regulations generally recognized to have a direct effect on the financial statements.

Apart from these, TenneT is subject to other laws and regulations where the consequences of non-compliance could have a material effect on amounts and/or disclosures in the financial statements, for instance, through imposing fines or litigation. Given the nature of TenneT's business and the complexity of energy laws and regulations in The Netherlands, as well as environmental laws, there is a risk of non-compliance with the requirements of such laws and regulations. In addition, we considered relevant laws and regulations applicable to listed companies.

Our procedures are more limited with respect to other laws and regulations that do not have a direct effect on the determination of the amounts and disclosures in the financial statements. These laws and regulations compliance may be fundamental to the operating aspects of the business, to TenneT's ability to continue its business, or to avoid material penalties (e.g., compliance with the terms energy laws in The Netherlands or compliance with environmental regulations) and therefore non-compliance with such laws and regulations may have a material effect on the financial statements. In addition, we considered major laws and regulations applicable to listed companies. Our responsibility is limited to undertaking specified audit procedures to help identify non-compliance with those laws and regulations that may have a material effect on the financial statements.

Our procedures are limited to (i) inquiry of management, the Supervisory Board and others within TenneT as to whether the Company is in compliance with such laws and regulations and (ii) inspecting correspondence, if any, with the relevant licensing or regulatory authorities to help identify non-compliance with those laws and regulations that may have a material effect on the financial statements.

Naturally, we remained alert to the indications of (suspected) non-compliance throughout the audit.

Finally, we obtained written representations that all known instances of (suspected) fraud or non-compliance with laws and regulations have been disclosed to us.

Our key audit matters

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

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

Key Audit Matters	How the key audit matter was addressed in the audit
Investments in grid connections	
Securing supply and facilitating the integration of sustainable energy sources into the high-voltage grid require substantial investments and flexible access to (equity) funding. TenneT plans to invest EUR 1.5 - 2 billion annually over the next 3-5 years in on- and offshore grid connections. We have included this as a key audit matter because of: the financial significance of the capital expenditures; and the risks associated with large investment projects, complexity in procurement, construction and timely completion.	We have tested the internal control environment related to tangible fixed assets through testing of operating effectiveness of relevant controls, including controls related to investment approval and the financial closing of assets under construction as well as the periodic determination of the useful life of tangible fixed assets. In addition, we have tested relevant controls for design and implementation around the liquidity forecast safeguarding TenneT's ability to finance investments. At yearend, we have performed test of details on the additions and other movements. We obtained and discussed internal management reports about progress of the key assets under construction. **Observation** No reportable matters were identified as a result of our procedures.
Provision for decommissioning of (offshore) assets	
Decommissioning of offshore assets will be an important topic over the next 20 - 40 years for TenneT as a large part of these assets come to the end of their economic life. Furthermore, moving towards a renewable future involves significant investments in offshore assets, requiring recognition of new provisions. The corresponding provisions are based on estimates of costs, timing of decommissioning, discount rates and inflation. We have included this as a key audit matter because of: the significance of the provision and additions for the year triggered by the start of construction of new (offshore) assets; and the uncertainty involved in measuring the provision and sensitivity to changes in key assumptions, including the cost base, the inflation rate and the discount rate.	We have obtained management's position papers on the cost assumptions and the methodology. Our audit procedures include testing of design and implementation of relevant controls around the periodical assessment of these assumptions and the evaluation of the financial model used to calculate the provision. Our substantive audit procedures further include an assessment of the reasonability of the key assumptions (including involvement of a specialist with regards to the cost assumptions) through comparison with observable market data and procedures to address the completeness of the provision. Furthermore, we evaluated the appropriateness of the disclosure of the accounting policy and estimation uncertainty of these provisions. **Observation** We considered management's key assumptions, to be within the reasonable range of our own expectations.
First year engagement	
Initial audit engagements involve numerous considerations not associated with recurring engagements. The audit transition, including the audit of the opening balance has been identified as a key audit matter as it involves additional planning activities and considerations to establish an appropriate audit strategy. We have included this as a key audit matter because scientific research indicates a higher rate of audit errors for initial audit engagements, resulting from lack of understanding of the business drivers, control environment including information systems understanding and financial flows. That may result in insufficiently substantiated risk assessments as well as inadequate internal controls and substantive testing evidence.	To address the pervasive risk on our first year audit engagement, we have e.g. performed the following procedures: We have read various sector and Company reports and evaluated the content of those for our risk assessment of the audit of TenneT. We have set-up 'audit transition-labs' with both financial and operating management of TenneT, providing us with a good initial understanding of the business drivers, control environment, financial flows and information systems. We have performed an in-depth review of TenneT's accounting policies and disclosure practices, and subjected the integrated annual report to various quality reviews. We held transition meetings with the predecessor auditor, as well as performed a review on their audit file to rely on the opening balance sheet work done by them. **Observation** Following these procedures, we believe that we obtained sufficient and appropriate audit evidence that mitigated the pervasive risk on our first year audit engagement.

Report on the other information included in the annual report

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

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

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

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

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

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

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

Report on other legal and regulatory requirements

Engagement

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

No prohibited non-audit services

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

Description of responsibilities regarding the financial statements

Responsibilities of management and the Supervisory Board for the financial statements

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

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

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

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

Our responsibilities for the audit of the financial statements

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

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

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

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

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

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

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

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

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

Zwolle, 8 March 2021

Deloitte Accountants B.V.

G.C. Hamer

Glossary

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

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

ACM – Autoriteit Consument & Markt
Dutch national regulatory authority.

BFBN – Besluit Financieel Beheer Netbeheerder
Rules made by the Dutch state relating to the financial management of the system operator.

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

Carbon footprint
The total amount of greenhouse gases produced to directly and indirectly support human activities, usually expressed in equivalent tons of carbon dioxide (CO_2).

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

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

COSO – Committee of Sponsoring Organisations of the Treadway Commission
COSO has established the common internal control model against which companies and organisations assess their control systems.

CO_2 – Carbon dioxide
Carbon dioxide is a greenhouse gas formed by the burning of carbon-based fuels. Its concentration in the atmosphere is rapidly increasing, leading to global warming.

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

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

DNB – De Nederlandsche Bank
Central Bank of the Netherlands.

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

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

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

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

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

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

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

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

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

GW – Gigawatt
A unit of power equal to one billion watts.

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

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

IFRS – International Financial Reporting Standards
Internationally prescribed and recognised reporting guidelines developped from 2001.

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

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

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

MW – Megawatt
A unit of power equal to one million watts.

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

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

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

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

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

OWF – Offshore wind farm operators
Offshore wind farms are constructed in bodies of water to generate electricity from wind.

Prosumers
Energy consumers simultaneously acting as producers.

RES – Renewable Energy Sources

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

SIC- Standing Interpretations Committee

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

TSO – Transmission system operator

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

TenneT TSO B.V.

Utrechtseweg 310, 6812 AR, Arnhem, the Netherlands
P.O. Box 718, 6800 AS Arnhem, the Netherlands

www.tennet.eu

Colophon

TenneT TSO B.V.

Visiting address

Utrechtseweg 310, 6812 AR, Arnhem, the Netherlands
T: +31 (0)26 – 37 31 111

Corporate Communications Department

T: +31 (0)26 – 37 32 600
E: communication@tennet.eu

Concept & Design

DartGroup, Amsterdam

We look forward to receiving your feedback on this report, please send an email to communication@tennet.eu

Disclaimer

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

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

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