Ørsted Bioenergy & Thermal Power A/S

Annual report for 2021

CVR no. 27 44 64 69

Adopted at the annual general meeting on 19 May 2022

Vibeke Rohde
chairman

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Statement by management on the annual report

The executive boards and board of directors have today discussed and approved the annual report of Ørsted Bioenergy & Thermal Power A/S for the financial year 1 January - 31 December 2021.

The annual report is prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the company's financial position at 31 December 2021 and of the results of the company's operations for the financial year 1 January - 31 December 2021.

In our opinion, management's review includes a fair review of the matters dealt with in the management's review.

Management recommends that the annual report should be approved by the company in general meeting.

Skærbæk, 9 May 2022

Executive board

Ole Thomsen
CEO

Board of Directors

Daniel Lerup chairman	Henriette Fenger Ellekrog deputy chairman	Anja Forup
Viggo Rahbek Warming employee representative	Nicolai Karl Jensen employee representative	

Independent auditor's report

To the shareholder of Ørsted Bioenergy & Thermal Power A/S

Opinion

In our opinion, the Financial Statements give a true and fair view of the financial position of the Company at 31 December 2021 and of the results of the Company's operations for the financial year 1 January - 31 December 2021 in accordance with the Danish Financial Statements Act.

We have audited the Financial Statements of Ørsted Bioenergy & Thermal Power A/S for the financial year 1 January - 31 December 2021, which comprise a summary of significant accounting policies, income statement, balance sheet, statement of changes in equity and notes ("financial statements").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (IESBA Code) and the additional ethical requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Statement on management's review

Management is responsible for management's review.

Our opinion on the financial statements does not cover management's review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read management's review and, in doing so, consider whether management's review is materially inconsistent with the financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether management's review provides the information required under the Danish Financial Statements Act.

Based on the work we have performed, in our view, Management's review is in accordance with the Financial Statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement of management's review.

Independent auditor's report

Management's responsibilities for the Financial Statements
Management is responsible for the preparation of Financial Statements that give a true and fair view in accordance with the Danish Financial Statements Act, and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting in preparing the financial statements unless Management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark will always detect a material misstatement when it exists. 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.

As part of an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain 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.

- Obtain 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.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

Independent auditor's report

- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the financial statements 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.

- Evaluate the overall presentation, structure and contents of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

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

Copenhagen, 9 May 2022

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
CVR no. 33 77 12 31

Anders Stig Lauritsen
statsautoriseret revisor
MNE no. mne32800

Morten Jacobsen
statsautoriseret revisor
MNE no. mne44140

Company details

The company	Ørsted Bioenergy & Thermal Power A/S Kraftværksvej 53 Skærbæk 7000 Fredericia	
	Telephone: Fax:	+45 99 55 11 11 +45 99 55 00 02
	Website:	www.orsted.com
	CVR no.:	27 44 64 69
	Reporting period:	1 January - 31 December 2021
	Domicile:	Fredericia
Board of Directors	Daniel Lerup, chairman Henriette Fenger Ellekrog, deputy chairman Anja Forup Viggo Rahbek Warming, employee representative Nicolai Karl Jensen, employee representative	
Executive board	Ole Thomsen, chief executive officer	
Auditors	PricewaterhouseCoopers Statsautoriseret Revisionspartnerselskab Strandvejen 44 2900 Hellerup	
Consolidated financial statements	The company is included in the consolidated financial statements of the parent company Ørsted A/S, CVR no. 36 21 37 28. The Group annual report of Ørsted A/S, CVR no. 36 21 37 28 may be obtained at the following address: www.orsted.com/en/investors/ir-material/financial-reports-and-presentations	

Financial highlights

Seen over a 5-year period, the development of the Company may be described by means of the following financial highlights:

	2021	2020	2019	2018	2017
	MDKK	MDKK	MDKK	MDKK	MDKK
Key figures					
Profit/loss					
Revenue	9.907	5.354	6.260	6.268	5.984
Profit/loss before amortisation/depreciation and impairment losses	3.057	794	1.344	615	-68
Net financials	-232	-269	-481	-937	-109
Profit/loss for the year	1.593	-145	79	728	-710
Balance sheet					
Balance sheet total	13.292	9.366	9.831	12.090	12.417
Investment in property, plant and equipment	318	381	711	1.097	945
Equity	2.978	2.637	2.792	4.210	3.481
Number of employees	649	621	634	705	723
Financial ratios					
Gross margin	35,6%	24,0%	29,9%	18,2%	7,0%
EBIT margin	23,4%	2,0%	11,8%	-1,6%	-13,2%
Return on assets	20,4%	1,1%	6,7%	-0,8%	-6,2%
Solvency ratio	22,4%	28,2%	28,4%	34,8%	28,0%
Return on equity	56,7%	-5,3%	2,3%	18,9%	-18,5%

The financial ratios are calculated in accordance with the Danish Finance Society's recommendations and key figures. For definitions, see the summary of significant accounting policies.

Management's review

Business review
Ørsted Bioenergy & Thermal Power A/S is a member of the Ørsted Group and a subsidiary of Ørsted A/S, Fredericia. Reference is made to the annual report of Ørsted A/S.

The company's objectives are to engage in activities in the energy sector and ancillary activities.

Ørsted Bioenergy & Thermal Power A/S produces electricity and heat is produced at a number of thermal power plants in Denmark. The electricity generated is sold on the Nordic electricity exchange, Nord Pool. The heat produced is sold in accordance with long term heating contracts. Our power stations are an important part of the Danish energy system and they are some of the most efficient and flexible in the world, partly on account of combined electricity and district heat generation. They supply electricity and heat to our customers and contribute to supporting the transformation to renewable energy in the energy system of the future.

Ørsted Bioenergy & Thermal Power A/S has subsidiaries in i.a. Denmark, United Kingdom and the Netherlands. These subsidiaries also operate businesses within the energy sector, primarily in the production of enzymatic waste treatment technology.

Recognition and measurement uncertainties
The recognition and measurement of items in the annual report is not associated with any uncertainty.

Unusual matters
The company's financial position at 31 December 2021 and the results of its operations for the financial year ended 31 December 2021 are not affected by any unusual matters.

Financial review
The company's income statement for the year ended 31 December 2021 shows a profit of 1,593 mDKK, and the balance sheet at 31 December 2021 shows equity of 2,978 mDKK.

The 2021 activity highlights:

• Significantly higher earnings from our CHP plants (including ancillary services).

• We achieved our target of sourcing 100 % third-party certified sustainable biomass for our biomass-fuelled CHP plants.

• We increased our provision of ancillary services vital to the stable operation of the Danish grid.

Management's review

Financing

The Company's income statement for the year ended 31 December 2021 shows a profit of 1,593 mDKK (2020: loss 145 mDKK), and the balance sheet at 31 December 2021 shows equity of 2,978 mDKK (2020: 2,636 mDKK).

The development in the result compared to 2020 can be explained by:

Revenue increased by 4,552 mDKK to 9,906 mDKK in 2021. The increase was mainly driven by significantly higher power prices, higher sales of ancillary services and higher heat and power generation.

Thermal power generation increased by 55 % driven by favourable market conditions for power generation as well as increased demand for ancillary services. Heat generation increased with 19 % compared to last year, mainly due to colder weather.

Investments

In 2021, 318 million DKK were invested in property, plant and equipment. The investments relates primarily to reinvestments at the power plants.

The company's knowledge resources if of particular importance to its future earnings

In order to achieve our vision of leading the energy transformation, it is essential that we can attract and retain skilled employees. We believe that well-being, both at and outside work is helping to create long term job satisfaction and ultimately better results. Therefore, we want to create the best possible framework for a sustainable work life where people are energized to make a difference every day. We take the initiative to maintain a good sense of community and collaboration among colleagues, meaningful challenging tasks, good management as well as sustained focus on professional development and learning. In addition, we offer healthy food, fitness facilities, as well as tools that help to prevent such as lack of sleep and stress.

Our goal to create continuous personal and professional development is based on the individual employee and 70:20:10 model. 70:20:10 are based on research, which shows that around 70% of the learning and development takes place through experience, around 20% through others, while approximately 10 per cent comes from courses and training. Orsted's Academy also offers a wide range of development and training programs across all career path.

Foreign branches

The company has a branch in the UK.

Net profit (loss) relation to expected development assumed in previous report

Financial performance for 2021 is significantly higher than the expectations for the year.

Management's review

Financial expectations for 2022
Profit/loss for the year is expected to be slightly above 2021.

Ørsted Bioenergy & Thermal Power A/S' strategic focus is:

• Continue to optimise and decarbonise our CHP plants

• Explore the potential of Carbon Capture at our CHP plants

Continue to optimise and decarbonise our CHP plants
2021 was a year, where energy prices started to surge from summer 2021 onwards due to significantly lower wind speeds than normal. This benefitted our CHP plants significantly from increased demand for power generation and ancillary services at significantly higher power prices and spreads. This development has continued into 2022 and is further impacted by the outbreak of war in Ukraine putting an additional pressure on the energy markets.

2021 saw a temporary increase in our use of coal as a proportion of our overall fuel inputs, stemming from statutory requirements as part of our provision of ancillary services to the Danish power system. In 2022 the production on coal is likely to increase further due to constraints in the biomass market, which has also been impacted by the war in Ukraine. Our commitment to phase out coal by 2023 remains unchanged.

The Danish government have committed to support CCS projects with up to DKK 8bn in a tender during 2022. We are exploring the potential of carbon capture technology at our biomass-fired CHP plants. Carbon captured from biomass combustion is biogenic and can contribute to negative emissions when stored permanently, or it can be used as a feedstock to produce carbon-neutral products.

Management's review

The company's knowledge resources if of particular importance to its future earnings
In order to achieve our vision of leading the energy transformation, it is essential that we can attract and retain skilled employees. We believe that well-being, both at and outside work is helping to create long term job satisfaction and ultimately better results. Therefore, we want to create the best possible framework for a sustainable work life where people are energized to make a difference every day. We take the initiative to maintain a good sense of community and collaboration among colleagues, meaningful challenging tasks, good management as well as sustained focus on professional development and learning. In addition, we offer healthy food, fitness facilities, as well as tools that help to prevent such as lack of sleep and stress.

Our goal to create continuous personal and professional development is based on the individual employee and 70:20:10 model. 70:20:10 are based on research, which shows that around 70% of the learning and development takes place through experience, around 20% through others, while approximately 10 per cent comes from courses and training. Orsted's Academy also offers a wide range of development and training programs across all career path.

Special risks apart from generally occurring risks in industry
Operating Risk
The financial result of Ørsted Bioenergy & Thermal Power A/S is significantly affected by the development in a number of market prices, including biomass, oil, gas, electricity, coal, CO2 quotas and the dollar exchange rate. Parts of the market price exposure in 2021-2022 are hedged in accordance with the company's hedging strategy. Other factors that affect the financial results are the market's needs for flexibility, as well as the regulatory framework conditions.

The war in Ukraine will impact Ørsted Bioenergy & Thermal Power A/S as well as the entire energy market throughout 2022. While the full impact is unknown the first implications is increased power prices as well as feedstock prices both related to biomass and fossil fuels. Further the restrictions on import of Russian feedstock put a constraint on the market. Ørsted Bioenergy & Thermal Power A/S has secured biomass on long-term contracts and expect to have enough for delivering heat on biomass. However ancillary services and additional demand for power generation are expected to be coal-based some parts of 2022.

Environment
For several years, we have been committed to converting our power stations to use sustainable wood pellets and wood chips. In 2017, we decided to phase out coal by 2023, as coal is the fuel with the greatest carbon impact per produced quantity of power and heat. In just over ten years, we have gone from being one of the most coal-intensive utilities in Europe to having a completely coal-free generation by 2023.

Management's review

Statutory corporate social responsibility report
In pursuance of Section 99a (7) of the Danish Financial Statements Act, the Company has omitted information on corporate social responsibility. Reference is made to the Sustainability report 2021 of Ørsted A/S (www.orsted.com/en/sustainability/esg-ratings-and-reporting).

Policies on the underrepresented gender
Description of target figures for the underrepresented gender
Target figures for the underrepresented gender

Due to equal representation of men and women in the board of directors in accordance with the rules in Section 99b in the Danish Financial Statements Act, no targets for the share of the underrepresented gender have been set.

Description of policies for the underrepresented gender
Policies for the underrepresented gender

In order to fulfill Ørsted AS' overall gender split ambition, Ørsted Bioenergy & Thermal Power has initiated its own ambition of increasing the female percentage on all career levels. Today it is ranging from current 0%-22% with a majority of career levels below 15% females. The ambition is at all career level to reach a target between 18% and 33% by 2025 and to reach between 22% and 33% by 2030.

Description of how the company translates its policies on the underrepresented gender into action

To reach the targets, the D&I agenda is a continuous topic at management meetings in the Bioenergy Management group and there is currently being initiated activities both to attract and maintain more females at especially the early career levels, such as promoting Ørsted Bioenergy & Thermal Power more on vocational schools, technical schools and business schools.

Ørsted has joined 'the UN Convention on the Elimination of All Forms of Discrimination against Women'.

Data ethics
In pursuance of Section 99d of the Danish Financial Statements Act, the Company has omitted information on data ethics. Reference is made to the Annual report 2021 of Ørsted A/S.

https://orsted.com/en/about-us/corporate-governance/data-ethics-report

Accounting policies

The annual report of Ørsted Bioenergy & Thermal Power A/S for 2021 has been prepared in accordance with the provisions of the Danish Financial Statements Act applying to large enterprises of reporting class C.

The Danish Financial Statements Act allows us to use certain IFRS standards to interpret the act. Previously, we have therefore implemented IFRS 15 'Revenue' and IFRS 16 'Leases'.

The accounting policies applied are consistent with those of last year.

The annual report for 2021 is presented in TDKK.

Pursuant to sections §112, of the Danish Financial Statements Act, the company has not prepared consolidated financial statements.

Basis of recognition and measurement

Income is recognised in the income statement as earned, including value adjustments of financial assets and liabilities. All expenses, including amortisation, depreciation and impairment losses, are also recognised in the income statement.

Assets are recognised in the balance sheet when it is probable that future economic benefits will flow to the company and the value of the asset can be measured reliably.

Liabilities are recognised in the balance sheet when it is probable that future economic benefits will flow from the company and the value of the liability can be measured reliably.

On initial recognition, assets and liabilities are measured at cost. On subsequent recognition, assets and liabilities are measured as described below for each individual accounting item.

Certain financial assets and liabilities are measured at amortised cost using the effective interest method. Amortised cost is calculated as the historic cost less any installments and plus/less the accumulated amortisation of the difference between the cost and the nominal amount.

On recognition and measurement, allowance is made for predictable losses and risks which occur before the annual report is presented and which confirm or invalidate matters existing at the balance sheet date.

Government grants

Government grants comprise grants for environment-friendly generation and for funding of research and development projects. Government grants are recognised when there is reasonable assurance that they will be received.

Accounting policies

Grants for electricity generation are recognised as revenue in step with the recognition of the related electricity revenue.

Grants for research and development costs which are recognised directly in the income statement are recognised as other operating income in step with the costs to which the grants relate being incurred.

Grants for production assets and development projects are recognised in the balance sheet as deferred income and transferred to other operating income in the income statement in step with depreciation and amortisation of the assets to which the grants relate.

Allocated CO2 rights are recognised as rights within intangible assets.

Hedge accounting
Fair value adjustments of financial instruments that are designated and qualify as fair value hedges of recognised assets or liabilities are recognised in the income statement together with any fair value adjustments of the hedged asset or liability that can be attributed to the hedged risk.

Changes in the fair value of financial instruments that are designated and qualify as hedges of expected future transactions are recognised in equity under retained earnings as regards the effective portion of the hedge. The ineffective portion of the hedge is recognised in the income statement. If the hedged transaction results in an asset or a liability, amounts deferred under equity are transferred to the cost of the asset or liability. If the hedged transaction results in income or expenses, amounts deferred under equity are transferred to the income statement in the period in which the hedged transaction is recognised. The amount is recognised in the same item as the hedged transaction.

Changes in the fair value of financial instruments that are designated and qualify as hedges of net investments in independent foreign subsidiaries, participating interests or associates are recognised directly in equity as regards the effective portion of the hedge, while the ineffective portion is recognised in the income statement.

Income statement

Information of revenue
Information is provided on geographical markets. The information is provided in consideration of the company's accounting policies, risks and management control.

Revenue
Income from the sale of power and heat is recognised in the income statement, provided that the transfer of risk, usually on delivery to the buyer, has taken place and that the income can be measured reliably and is expected to be received.

Accounting policies

Revenue is measured at the fair value of the agreed consideration, excluding VAT and other indirect taxes. Revenue is net of all types of discounts granted.

Raw materials and consumables
Expenses for raw materials and consumables include the raw materials and consumables used in generating the year's revenue.

Raw materials and consumables comprise the purchases of fuel in the form of gas, coal, biomass and oil, purchases of energy, and transportation expenses in connection with the above and expenses related to CO2 emissions. These expenses are recognised in the income as consumed.

Other operating income
Other operating income comprises items of a secondary nature relative to the company's activities, including gains on the sale of intangible assets and items of property, plant and equipment.

Other operating expenses
Other operating expenses comprise items of a secondary nature relative to the company's activities, including losses on the sale of intangible assets and items of property, plant and equipment.

Other external expenses
Other external expenses include expenses related to distribution, sale, advertising, administration, premises, bad debts, payments under operating leases, etc.

Other external expenses also comprise research and development costs that do not qualify for capitalisation.

Staff costs
Staff costs include wages and salaries, including compensated absence and pensions, as well as other social security contributions, etc. made to the entity's employees. The item is net of refunds made by public authorities.

The share programme is initially classified as an equity-based scheme as the program settles in shares in Ørsted A/S. The fair value of the performance-based share units (PSUs) and estimates of the number of PSU's granted are measured at the time of granting and recognised:
- in the income statement under employee costs over the vesting period, and
- in the balance sheet under equity over the vesting period.

Amortisation, depreciation and impairment losses
Amortisation, depreciation and impairment losses comprise the year's amortisation, depreciation and impairment of intangible assets and property, plant and equipment.

Accounting policies

Financial income and expenses

Financial income and expenses are recognised in the income statement at the amounts that relate to the financial year. Net financials include interest income and expenses, financial expenses relating to finance leases, realised and unrealised capital/exchange gains and losses on securities, liabilities and foreign currency transactions, amortisation of financial assets and liabilities and surcharges and allowances under the Danish Tax Prepayment Scheme, etc. Net financials also include realised and unrealised gains and losses relating to hedging of interest rate and currency risks that have not been entered into to hedge revenue, cost of sales or fixed assets.

Profit/loss from investments in subsidiaries and associates

Dividend from investments is recognised in the reporting year in which the dividend is declared.

Tax on profit/loss for the year

The company is subject to the Danish rules on compulsory joint taxation of the Ørsted Group's Danish subsidiaries. Subsidiaries participate in the joint taxation arrangement from the time when they are included in the consolidated financial statements and until the time when they withdraw from the consolidation.

The ultimate Parent Company, Orsted A/S, is the management company for the joint taxation and consequently settles all income tax payments to the tax authorities.

On payment of joint taxation contributions, the current Danish income tax is allocated between the jointly taxed Danish entities in proportion to their taxable income. Danish entities with tax losses receive joint taxation contributions from the ultimate parent company (the management company), Ørsted A/S equivalent to the tax base of the tax losses utilised (full allocation), while Danish entities that utilise tax losses in other entities pay joint taxation contributions to the Ørsted A/S equivalent to the tax base of the utilised losses.

Tax for the year, which comprises the current tax charge for the year and changes in the deferred tax charge, is recognised in the income statement as regards the portion that relates to the profit/loss for the year and directly in equity as regards the portion that relates to entries directly in equity.

Balance sheet

Intangible assets

Development projects, patents and licences

Development costs comprise costs directly and indirectly attributable to the company's development activities and meet the criteria for recognition.

Accounting policies

Development projects consists of IT software, which meet the criteria for recognition in the balance sheet. Static process modelling is the main project and is recognised as a development project and completed during 2018. The expected life-time is assessed as 7 years. The project is used for optimizing the power plants design, operation and maintenance and will ensure future economic benefit by optimizing fuel distribution and production flexibility. The model provides up-to-date current data on the capacity of the power plants, which contribute to improving the load distribution and entries to the market. Development projects that do not meet the criteria for recognition in the balance sheet are recognised as expenses in the income statement as incurred.

Capitalised development costs are measured at cost less the lower of accumulated amortisation and the recoverable amount.

On completion of a development project, capitalised development costs are amortised on a straightline basis over the estimate economic life. The amortisation period is normally 5 years and does not exceed 20 years.

Patents and licences consists of CO2 emission and IT-software, which are measured at cost less accumulated amortisation and impairment losses. Patents are amortised on a straight-line basis over the remaining patent period, and licences are amortised over the term of the licence, however not more than 20 years.

Allocated and purchased CO2 emission allowances, including CO2 credits, that are accounted for as rights are measured initially at cost. If a grant is received in connection with an allocation, the cost constitutes the actual consideration paid for the allowances, ie nil if the allowances are allocated free of charge. CO2 emission allowances are not amortised as their residual value equals their cost.

Tangible assets
Tangible assets are measured at cost less accumulated depreciation and impairment losses.

The depreciable amount is cost less the expected residual value at the end of the useful life. Land and property, plant and equipment in progress are not depreciated.

Cost comprises the purchase price and any costs directly attributable to the acquisition until the date when the asset is available for use. The cost of self-constructed assets comprises direct and indirect costs of materials, components, sub-suppliers and wages.

Interest expenses on loans obtained specifically for the purpose of financing the manufacturing of items of property, plant and equipment are included in cost over the manufacturing period. All indirect, attributable borrowing costs are recognised in the income statement.

Accounting policies

Cost is increased by estimated expenses for dismantling and removing the asset and restoration to the extent that they are recognised as a provision

Straight-line depreciation is provided on the basis of the following estimated useful lives of the assets:

	Useful life	
Buildings	years	20-50 years
Plant and machinery	years	10-40 years
Other fixtures and fittings, tools and equipment	years	3-5 years

The residual value of the company's property, plant and equipment is reassessed annually.

Leases
Leases for items of buildings that transfer substantially all the risks and rewards incident to ownership to the company (finance leases) are recognised in the balance sheet as assets. On initial recognition, assets are measured at estimated cost, corresponding to the lower of fair value of the leased asset and the present value of the future lease payments. In calculating the net present value of the future lease payments, the interest rate implicit in the lease or the incremental borrowing rate is used as the discount factor. Assets held under finance leases are subsequently depreciated as the company's other non-current assets.

The capitalised residual lease commitment is recognised in the balance sheet as a liability, and the interest element of the lease payment is recognised in the income statement over the term of the lease.

Investments in subsidiaries and associates
Investment in subsidiaries and associates are measured at cost. If cost exceeds the recoverable amount, a write-down is made to this lower value.

Cost is written down to the extent that dividend distributed exceeds the accumulated earnings after the date of takeover.

Where the parent company has a legal or constructive obligation to cover the companies´ negative balances or obligations, such obligation is recognised in liabilities.

Other securities and investments, fixed assets
Investments are measured at cost.

Impairment of fixed assets
The carrying amount of intangible assets, items of property, plant and equipment and investments in subsidiaries and associates is tested annually for impairment, other than what is reflected through normal amortisation and depreciation.

Accounting policies

Where there is evidence of impairment, an impairment test is performed for each individual asset or group of assets. Write-down is made to the lower of the recoverable amount and the carrying amount.

The recoverable amount is the higher of the net present value and the value in use less expected costs to sell. The net present value is determined as the present value of the anticipated net cash flows from the use of the asset or group of assets and the anticipated net cash flows from the disposal of the asset or group of assets after the end of their useful life.

Stocks
Stocks are measured at cost using the FIFO method. Where the net realisable value is lower than the cost, inventories are recognised at this lower value.

The net realisable value of stocks is calculated as the expected selling price less direct costs of completion and expenses incurred to effect the sale. The net realisable value is determined taking into account marketability, obsolescence and expected selling price movements.

Receivables
Receivables are measured at amortised cost.

An impairment loss is recognised if there is objective evidence that a receivable or a group of receivables is impaired. If there is objective evidence that an individual receivable is impaired, an impairment loss for that individual asset is recognised.

Prepayments
Prepayments comprise expenses incurred concerning subsequent financial years.

Cash and cash equivalents
Cash and cash equivalents comprise cash.

Equity
Dividends
Proposed dividends are disclosed as a separate item under equity. Dividends are recognised as a liability when declared by the annual general meeting of shareholders.

Provisions
Provisions are recognised when in consequence of an event occurred before or on the balance sheet date the company has a legal or constructive obligation and it is probable that economic benefits must be given up to settle the obligation.

Accounting policies

In measuring provisions, the expenses required to settle the liability are discounted to net present value, if this has a significant effect on the measurement of the liability. A pre tax discount rate is used that reflects the general interest rate level in the market. The change in present values for the financial year is recognised as financial expenses.

Provisions for the decommissioning of production assets and restoration are measured at the present value of the future liability in respect of decommissioning and shutdown as estimated at the balance sheet date. The amount provided is determined on the basis of existing requirements and estimated expenses, which are discounted to present value. If specific risks are deemed to attach to a provision, the estimated expenses are recognised. A discount rate is used that reflects the general interest rate level in society. These liabilities are recognised as they arise and are adjusted on a regular basis to reflect changes in requirements, price level, etc. The value of the provision is recognised in property, plant and equipment and depreciated together with the relevant assets. The increase in time of the present value of the provision is recognised in profit/loss for the year as financial expenses.

A provision for onerous contracts is recognised when the expected benefits to be derived from a contract are lower than the unavoidable cost of meeting the obligations existing under the contract. If it is considered unlikely that an outflow from the enterprise of economic resources will be required to settle a liability, or if the liability cannot be measured reliably, the liability is accounted for as a contingent liability that is not recognised in the balance sheet. Material contingent liabilities are disclosed in the notes.

When it is probable that the total costs will exceed the total revenue from contract work in progress, the total expected loss on the work in progress is recognised as a provision. The provision is recognised under production costs.

Income tax and deferred tax

Current tax liabilities and current tax receivables are recognised in the balance sheet as the estimated tax on the taxable income for the year, adjusted for tax on the taxable income for previous years and tax paid on account.

Deferred tax is measured according to the liability method in respect of temporary differences between the carrying amount of assets and liabilities and their tax base, calculated on the basis of the planned use of the asset and settlement of the liability, respectively. Deferred tax is measured at net realisable value.

Deferred tax is measured according to the tax rules and at the tax rates applicable in the respective countries at the balance sheet date when the deferred tax is expected to crystallise as current tax. Deferred tax adjustments resulting from changes in tax rates are recognised in the income statement, with the exception of items taken directly to equity.

Accounting policies

Deferred tax assets, including the tax base of tax losses allowed for carry forward, are measured at the value to which the asset is expected to be realised, either as a set-off against tax on future income or as a set-off against deferred tax liabilities within the same legal tax entity. Any deferred net tax assets are measured at net realisable value.

Liabilities
Liabilities, which include trade payables, payables to group entities and other payables, are measured at amortised cost, which is usually equivalent to nominal value.

Deferred income
Deferred income comprises payments received concerning income in subsequent reporting years.

Foreign currency translation
On initial recognition, foreign currency transactions are translated applying the exchange rate at the transaction date. Foreign exchange differences arising between the exchange rates at the transaction date and at the date of payment are recognised in the income statement as financial income or financial expenses. If foreign currency instruments are considered cash flow hedges, any unrealised value adjustments are taken directly to a fair value reserve under 'Equity'.

Receivables and payables and other monetary items denominated in foreign currencies are translated at the exchange rates at the balance sheet date. The difference between the exchange rates at the balance sheet date and the date at which the receivable or payable arose or was recognised in the latest financial statements is recognised in the income statement as financial income or financial expenses.

Fixed assets acquired in foreign currencies are translated at the exchange rate at the transaction date.

Derivative financial instruments
On initial recognition in the balance sheet, derivative financial instruments are measured at cost and subsequently at fair value. Positive and negative fair values of derivative financial instruments are included in other receivables or other payables, respectively.

Cash flow statement

In pursuance of Section 86 (iv) of the Danish Financial Statements Act, The company has omitted preparing a cash flow statement, as the company's cash flows are included in the consolidated cash flow statement.

Accounting policies

Financial highlights

Definitions of financial ratios.

Gross margin ratio	$\frac{\text{Gross profit x 100}}{\text{Revenue}}$
EBIT margin	$\frac{\text{Profit/loss before financials x 100}}{\text{Revenue}}$
Return on assets	$\frac{\text{Profit/loss before financials x 100}}{\text{Average assets}}$
Solvency ratio	$\frac{\text{Equity, end of year x 100}}{\text{Total assets at year-end}}$
Return on equity	$\frac{\text{Profit/loss from ordinary operations after tax x 100}}{\text{Average equity}}$

Income statement 1 January - 31 December

	Note	2021 TDKK	2020 TDKK
Revenue	1	**9.906.799**	**5.354.387**
Work performed by the enterprise and capitalised		22.723	30.605
Other operating income	2	34.017	26.704
Raw materials and consumables		-5.529.210	-3.357.626
Other external expenses		-904.400	-766.616
Gross profit		**3.529.929**	**1.287.454**
Staff costs	3	-473.375	-493.327
Profit/loss before amortisation/depreciation and impairment losses		**3.056.554**	**794.127**
Depreciation, amortisation and impairment of intangible assets and property, plant and equipment		-691.113	-658.989
Other operating costs		-51.307	-28.095
Profit/loss before net financials		**2.314.134**	**107.043**
Income from investments in subsidiaries		-78.502	-137.611
Income from investments in associates		1.125	694
Financial income	4	14.490	55.959
Financial costs	5	-168.872	-187.959
Profit/loss before tax		**2.082.375**	**-161.874**
Tax on profit/loss for the year	6	-489.626	16.447
Profit/loss for the year		**1.592.749**	**-145.427**
Distribution of profit	7		

Balance sheet 31 December

	Note	2021	2020
		TDKK	TDKK
Assets			
Completed development projects		11.025	12.500
Acquired patents		820.835	324.200
Development projects in progress		0	0
Intangible assets	8	**831.860**	**336.700**
Land and buildings		496.656	533.278
Plant and machinery		5.549.470	5.958.768
Other fixtures and fittings, tools and equipment		42.986	7.829
Property, plant and equipment in progress		243.869	202.818
Tangible assets	9	**6.332.981**	**6.702.693**
Investments in subsidiaries	10	320.227	406.164
Investments in associates	11	100	1.031
Fixed asset investments		**320.327**	**407.195**
Total non-current assets		**7.485.168**	**7.446.588**
Raw materials and consumables		530.254	780.310
Stocks	12	**530.254**	**780.310**
Trade receivables	13	400.951	428.651
Receivables from group enterprises		4.495.585	586.981
Receivables from associates		565	483
Other receivables		3.710	15.316
Corporation tax		0	56.449
Prepayments	14	3.646	6.878
Receivables		**4.904.457**	**1.094.758**
Cash at bank and in hand		**372.304**	**43.898**
Total current assets		**5.807.015**	**1.918.966**
Total assets		**13.292.183**	**9.365.554**

Balance sheet 31 December

	Note	2021 TDKK	2020 TDKK
Equity and liabilities			
Share capital		500.000	500.000
Hedging reserve		-1.245.608	0
Retained earnings		3.723.703	2.136.578
Equity		**2.978.095**	**2.636.578**
Provision for deferred tax	15	264.284	346.546
Provisions for pensions and similar liabilities	16	8.487	9.300
Other provisions	17	1.487.167	1.023.486
Total provisions		**1.759.938**	**1.379.332**
Lease obligations		55.230	60.614
Other payables		542.154	0
Deferred income		3.214.995	3.634.845
Total non-current liabilities	18	**3.812.379**	**3.695.459**
Other bank loans	18	0	7.616
Lease obligation	18	7.194	7.194
Trade payables		655.465	456.183
Other provisions		28.400	0
Payables to group enterprises		3.364.727	564.911
Corporation tax		109.987	0
Other payables		353.672	399.145
Deferred income		222.326	219.136
Total current liabilities		**4.741.771**	**1.654.185**
Total liabilities		**8.554.150**	**5.349.644**
Total equity and liabilities		**13.292.183**	**9.365.554**
Subsequent events	19		
Contingent assets, liabilities and other financial obligations	20		
Mortgages and collateral	21		
Financial instruments	22		
Related parties and ownership structure	23		
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Statement of changes in equity

	Share capital	Hedging reserve	Retained earnings	Total
	TDKK	TDKK	TDKK	TDKK
Equity at 1 January 2021	500.000	0	2.136.578	2.636.578
Fair value adjustment of hedging instruments	0	-1.582.167	0	-1.582.167
Other equity movements	0	0	-5.624	-5.624
Net profit/loss for the year	0	0	1.592.749	1.592.749
Changes in equity of tax	0	336.559	0	336.559
Equity at 31 December 2021	**500.000**	**-1.245.608**	**3.723.703**	**2.978.095**

Notes

		2021	2020
		TDKK	TDKK
1	**Revenue**		
	Sale of power	7.915.101	2.211.310
	Sale of heat	2.580.179	2.725.669
	Other sales	-588.481	417.408
	Total revenue	**9.906.799**	**5.354.387**
	Denmark	9.906.799	5.354.387
	Total revenue	**9.906.799**	**5.354.387**

		2021	2020
2	**Other operating income**		
	Gain/loss on sale of assets	4.563	15.109
	Other operating revenues	29.454	11.595
		34.017	**26.704**

Notes

		2021	2020
		TDKK	TDKK
3	**Staff costs**		
	Wages and salaries	426.674	447.020
	Pensions	41.258	41.725
	Other social security costs	4.556	3.819
	Other staff costs	887	763
		473.375	**493.327**
	Average number of employees	649	621

According to section 98 B(3) of the Danish Financial Statements Act, renumeration to the executive board has not been disclosed.

The executive board and a limited number of other members of senior management participate in our share programme established in 2016. As a condition for the award of performance share units (PSUs), the participant must own a number of shares in Ørsted A/S, corresponding to a part of the individual participant's annual base salary. The ownership requirement is between 15%-75% of the fixed salary. If the participants meet the shareholding requirement at the award date, the participants will each year be awarded a number of PSU's, representing a value corresponding to 15%-20% of the annual base salary at the award date.

The awarded PSU's have a vesting period of approx. three years, after which each PSU entitles the holder to receive one share free of charge. The final number of PSU's for each participant will be determined based on Ørsted A/S's total shareholder return compared to 10 European peer energy companies. The rate will vary from 0% to 200% of the number that is set as target for the awarded PSU's. The maximum value is 30%-40% of the fixed annual salary at the time of granting. In addition to this also comes the change in fair value of the Ørsted share since grant. The highest rate will be triggered if Ørsted A/S delivers the highest return of the peer companies. For each lower position the number of PSU's will decline by 20 percentage points. For example, a second place entitles the participants to 180% of the target. If Ørsted A/S is number 11 in the comparison, the participants will receive no PSU's. The right to PSU's is subject to continued employment.

Notes

		2021	2020
		TDKK	TDKK
4	**Financial income**		
	Financial income, group entities	11.259	30.387
	Other financial income	78	2
	Exchange gains	3.153	25.570
		14.490	**55.959**

		2021	2020
5	**Financial costs**		
	Financial expenses, group entities	31.891	22.117
	Other financial costs	133.377	141.333
	Exchange loss	3.604	24.509
		168.872	**187.959**

		2021	2020
6	**Tax on profit/loss for the year**		
	Current tax for the year	508.514	-60.448
	Deferred tax for the year	-31.784	52.205
	Adjustment of tax concerning previous years	63.374	10.961
	Adjustment of deferred tax concerning previous years	-50.478	-19.165
		489.626	**-16.447**

		2021	2020
7	**Distribution of profit**		
	Retained earnings	1.592.749	-145.427
		1.592.749	**-145.427**

Notes

8 Intangible assets

	Completed development projects	Acquired patents	Development projects in progress	Total
	TDKK	TDKK	TDKK	TDKK
Cost at 1 January 2021	49.196	424.706	0	473.902
Additions for the year	0	796.421	1.144	797.565
Disposals for the year	0	-299.375	0	-299.375
Transfers for the year	1.144	0	-1.144	0
Cost at 31 December 2021	50.340	921.752	0	972.092
Impairment losses and amortisation at 1 January 2021	36.696	100.508	0	137.204
Amortisation for the year	2.619	409	0	3.028
Impairment losses and amortisation at 31 December 2021	39.315	100.917	0	140.232
Carrying amount at 31 December 2021	**11.025**	**820.835**	**0**	**831.860**

Notes

9 Tangible assets

	Land and buildings	Plant and machinery	Other fixtures and fittings, tools and equipment	Property, plant and equipment in progress	Total
	TDKK	TDKK	TDKK	TDKK	TDKK
Cost at 1 January 2021	1.903.814	17.896.318	288.347	202.818	20.291.297
Additions for the year	0	72.388	0	246.060	318.448
Disposals for the year	-70	-6.763	-10.765	0	-17.598
Transfers for the year	9.996	148.812	46.201	-205.009	0
Cost at 31 December 2021	1.913.740	18.110.755	323.783	243.869	20.592.147
Impairment losses and depreciation at 1 January 2021	1.370.537	11.937.552	280.516	0	13.588.605
Depreciation for the year	46.547	630.496	11.044	0	688.087
Reversal of impairment and depreciation of sold assets	0	-6.763	-10.763	0	-17.526
Impairment losses and depreciation at 31 December 2021	1.417.084	12.561.285	280.797	0	14.259.166
Carrying amount at 31 December 2021	**496.656**	**5.549.470**	**42.986**	**243.869**	**6.332.981**
Value of leased assets	58.652	0	0	0	

Notes

		2021	2020
		TDKK	TDKK
10	**Investments in subsidiaries**		
	Cost at 1 January 2021	4.705.785	4.726.185
	Additions for the year	76	0
	Disposals for the year	-22.713	-20.400
	Cost at 31 December 2021	4.683.148	4.705.785
	Revaluations at 1 January 2021	-4.299.621	-4.162.121
	Revaluations for the year, net	-86.300	-137.500
	Revaluations of disposals of investments on demerger and sale of enterprise	23.000	0
	Revaluations at 31 December 2021	-4.362.921	-4.299.621
	Carrying amount at 31 December 2021	**320.227**	**406.164**

Notes

Investments in subsidiaries are specified as follows:

Name	Registered office	Ownership interest	Equity	Profit/loss for the year
Orsted Netherlands B.V.	Rotterdam, Netherlands	100%	60.118	1.197
Orsted Holding Ludwigsau I GmbH	Hamburg, Germany	100%	141	-7
Haderslev Kraftvarmeværk A/S under likvidation	Fredericia, Denmark	100%	1.264	-6
DE Thermal Power Nr. 1 A/S under likvidation	Fredericia, Denmark	100%	8.078	-1
Vejen Kraftvarmeværk A/S under likvidation	Fredericia, Denmark	100%	3.344	-6
Orsted Renescience Northwich Ltd	London, England	100%	145.181	-105.060
Orsted Renescience Northwich O&M Ltd	London, England	100%	13.509	1.163
Ørsted New Bio Solutions Holding A/S	Fredericia, Danmark	100%	78.427	-10.372
Stigsnæs Vandindvinding I/S	Slagelse, Denmark	64%	11.680	0
Orsted SP Holding (UK) Ltd	Newport, Wales	100%	29.410	-62

Notes

		2021 TDKK	2020 TDKK
11	**Investments in associates**		
	Cost at 1 January 2021	1.031	1.031
	Disposals for the year	-931	0
	Cost at 31 December 2021	100	1.031
	Carrying amount at 31 December 2021	**100**	**1.031**

Investments in associates are specified as follows:

Name	Registered office	Ownership interest	Equity	Profit/loss for the year
Emineral A/S	Fredericia, Denmark	50%	4.697	158

		2021 TDKK	2020 TDKK
12	**Stocks**		
	Raw materials and consumables	530.254	780.310
		530.254	**780.310**

Inventories consist of fuels (Coal, wood pellets, oil and biomass). At 31 December 2021 the fair value of inventories amount DKK 707 mio. The carrying amount was DKK 530 mio. (2020: fair value of inventories DKK 714 mio. and carrying amount DKK 780 mio.)

13 Receivables from group enterprises

The company's receivables from group companies includes TDKK 4,420,651 in a cash pool scheme with the ultimate Parent Company, Ørsted A/S (2020: TDKK 492,628).

Notes

14 Prepayments

Prepayments comprise prepaid expenses regarding rent, insurance premiums, subscriptions and interest as well as fair value adjustments of derivative financial instruments with a positive fair value.

	2021	2020
	TDKK	TDKK
15 Provision for deferred tax		
Provision for deferred tax at 1 January 2021	-346.546	-313.506
Deferred tax recognised in income statement	82.262	-33.040
Provision for deferred tax at 31 December 2021	**-264.284**	**-346.546**
Provisions for deferred tax on:		
Intangible assets	4.285	4.699
Property, plant and equipment	541.200	543.250
Current assets	-2.118	15.443
Long-term debts	-279.083	-216.846
	264.284	**346.546**

Notes

		2021	2020
		TDKK	TDKK
16	**Provisions for pensions and similar liabilities**		
	Balance at 1 January 2021	9.300	9.600
	Provision for the year	0	500
	Applied in the year	-813	-800
	Balance at 31 December 2021	**8.487**	**9.300**

Defined benefit plans

The Company has undertaken to pay certain benefits (retirement pension) at a fixed amount to former members of the Executive Board in Denmark. These obligations are not covered by insurance. The uncovered pensions obligations stated at present value have been recognised in the balance sheet at TDKK 8,487

	2021	2020
Expected maturities:		
Within one year	1.410	1.410
Between 1 and 5 years	5.132	5.161
Over 5 years	1.945	2.729
	8.487	**9.300**

		2021	2020
17	**Other provisions**		
	Balance at beginning of year at 1 January 2021	1.023.486	993.015
	Adjustment decommissioning obligations	58.827	862
	Provision in year	704.229	299.473
	Applied in the year	-299.375	-269.864
	Balance at 31 December 2021	**1.487.167**	**1.023.486**

	2021	2020
The expected due dates of other provisions are:		
Within one year	141.000	44.560
Between 1 and 5 years	852.087	344.905
Over 5 years	494.080	634.021
	1.487.167	**1.023.486**

Notes

18 Long term debt

	2021 TDKK	2020 TDKK
Lease obligations		
Between 1 and 5 years	55.230	60.614
Non-current portion	55.230	60.614
Within 1 year	7.194	7.194
	62.424	**67.808**
Other payables		
Between 1 and 5 years	542.154	0
Non-current portion	542.154	0
Other short-term other debt	353.672	399.145
Current portion	353.672	399.145
	895.826	**399.145**
Deferred income		
After 5 years	2.264.977	2.653.604
Between 1 and 5 years	950.018	981.241
Non-current portion	3.214.995	3.634.845
Other short-term deferred income	222.326	219.136
Current portion	222.326	219.136
	3.437.321	**3.853.981**

19 Subsequent events

No events have occured after the balance sheet date which could significantly affect the company's financial position.

Notes

20 Contingent assets, liabilities and other financial obligations

Contingent liabilities
The company has entered into binding agreements with suppliers for the procurement of property, plant and equipment. The total liabilities amount to DKK 150 mio (2020: DKK 60 mio), and primarily concern agreements on investments at the Avedøre Power Plant.

Other contingent liabilities
Orsted Bioenergy & Thermal Power A/S is a party to a small number of disputes.

Management is of the opinion that the outcome of these disputes will not impact on the Company's financial position apart from the receivables and liabilities recognised in the balance sheet at 31 December 2021.

Orsted Bioenergy & Thermal Power A/S participates in a number of jointly controlled activities and enterprises. Together with the other participants the Company is jointly and severally liable for liabilities assumed under agreements concluded.

In connection with the sale of subsidiaries, the company has undertaken warranty obligations, which are not expected to result in a draw on financial resources.

Group's Danish companies are jointly and severally liable for tax on group jointly taxed income, etc., reference is made to the annual report Ørsted A/S, the administration company in relation to joint taxation.

21 Mortgages and collateral

As security towards subsidiaries supplier and leasing agreements, the Company has provided parent company guarantees amounting GBP 29 mio.

22 Financial instruments

The Company use various financial instruments to hedge power, coal and gas prices and currency rates with a horizon of 0-5 years to minimize fluctuations and secure future cash flow. Financial instruments amounts a net debt of 1,576 million DKK of 31. December 2021, which in the balance sheet is presented at receivables from group enterprises 21 million DKK and payables to group enterprises of 1,597 million DKK.

Notes

23 Related parties and ownership structure

Controlling interest

Ørsted A/S, Kraftværksvej 53, 7000 Fredericia (parent company)

Other related parties

Ørsted A/S (ultimate parent company)
The Danish State represented by the Ministry of Finance
Board of directors, executive board and key employees

Consolidated financial statements

The company is included in the consolidated financial statements of the parent company Ørsted A/S, CVR no. 36 21 37 28.

The Group annual report of Ørsted A/S, CVR no. 36 21 37 28 may be obtained at the following address:

www.orsted.com/en/investors/ir-material/financial-reports-and-presentations

24 Fee to auditors appointed at the general meeting

In pursuance of Section 96(3) of the Danish Financial Statements Act, the company has omitted providing information on audit fees as the company is fully consolidated in Ørsted A/S's consolidated financial statements, in which the audit fees for the Group as a whole are disclosed.