

VATTENFALL



Vattenfall A/S

Jupitervej 6, 6000 Kolding

CVR no. 21 31 13 32

Annual Report 2017

Approved at the Company's annual general meeting on 31/5 2018

Chairman:

A handwritten signature in black ink, written over a horizontal dotted line. The signature is cursive and appears to read 'Ole V. Jensen'.

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Statement by the Board of Directors and the Executive Board

The Board of Directors and the Executive Board have today discussed and approved the annual report of Vattenfall A/S for the financial year 1 January - 31 December 2017.

The annual report has been prepared in accordance with the Danish Financial Statements Act

It is our opinion that the financial statements give a true and fair view of the Company's financial position at 31 December 2017 and of the results of the Company's operations for the financial year 1 January - 31 December 2017.

Further, in our opinion, the Management's review gives a fair review of the development in the Company's operations and financial matters and the results of the Company's operations and financial position

We recommend that the annual report be approved at the annual general meeting

Copenhagen, 31 May 2018
Executive Board



Jørgen Nielsen
CEO

Board of Directors:



Michael Thorndahl Simmelsgaard
Chairman



Lars Peter Joëlsson



Jørgen Nielsen

Independent auditors' report

To the shareholder of Vattenfall A/S

Opinion

We have audited the financial statements of Vattenfall A/S for the financial year 1 January – 31 December 2017, which comprise income statement, balance sheet, statement of changes in equity and notes, including accounting policies. The financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the financial position of the Company at 31 December 2017 and of the results of the Company's operations for the financial year 1 January – 31 December 2017 in accordance with the Danish Financial Statements Act.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these rules and requirements.

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 as to 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 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 the financial statements.

As part of an audit conducted in accordance with ISAs and 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.

Independent auditor's report

- ▶ 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.
- ▶ 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 note 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.

Statement on the Management's review

Management is responsible for the Management's review.


Our opinion on the financial statements does not cover the 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 the Management's review and, in doing so, consider whether the 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 the Management's review provides the information required under the Danish Financial Statements Act.

Based on the work we have performed, we conclude that the 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 the Management's review.

Copenhagen, 31 May 2018
ERNST & YOUNG
Godkendt Revisionspartnerselskab
CVR no. 30 70 02 28



Torben Bender
State Authorised
Public Accountant
MNE-nr. 21332



Karsten Bøgel
State Authorised
Public Accountant
MNE-nr. 27849

Management's review

Company details

Name	Vattenfall A/S
Address, zip code, city	Jupitervej 6, DK-6000 Kolding
CVR no.	21 31 13 32
Established	19 October 1998
Registered office	Kolding
Financial year	1 January – 31 December
Website	www.vattenfall.dk
Board of Directors	Michael Thorndahl Simmelsgaard, Chairman Lars Peter Joelsson Jørgen Nielsen
Executive Board	Jørgen Nielsen, CEO
Auditors	Ernst & Young Godkendt Revisionspartnerselskab Osvald Helmuhs Vej 4, DK-2000 Frederiksberg, Denmark
Bankers	Nordea

Financial highlights

DKK'000	2017	2016	2015	2014	2013
Key figures					
Revenue	178,434	204,098	1,166,758	2,503,753	4,451,374
Operation profit/loss	-41,448	-18,710	-320,219	28,643	-41,513
Net financials	8,279	13,670	8,054	-21,729	3,721
Profit/loss for the year	-9,558	149,132	-311,705	84,335	24,208
Balance sheet					
Non-current assets	2,294	1,941	810,661	2,305,701	3,374,473
Current assets	445,631	719,935	680,357	1,497,719	3,435,145
Total Assets	447,950	721,876	1,491,018	3,803,420	6,809,618
Investments, plant and machinery	0	0	22,615	77,665	254,648
Equity	381,210	390,768	937,436	2,349,141	2,764,808
Personnel					
Average number of employees	18	20	177	306	515
Financial ratios					
Operating margin	-23,2 %	-9,2 %	-27,4 %	1,1 %	-0,9 %
Gross margin	-11,1 %	2,5 %	-0,4 %	6,3 %	3,5 %
Return on invested capital	-7,1 %	-1,7 %	-12,1 %	0,5 %	-0,6 %
Solvency ratio	85,1 %	54,1 %	62,9 %	61,8 %	40,6 %
Return on equity	-2,5 %	21,6 %	19,0 %	3,3 %	0,9 %

Financial ratios are calculated in accordance with the Danish Society of Financial Analysts' guidelines on the calculation of financial ratios "Recommendations and Financial Ratios 2015". For terms and definitions, please see the accounting policies.

The annual report of Vattenfall A/S for 2017 has been prepared in accordance with the provisions applying to large reporting class C enterprises under the Danish Financial Statements Act.

The accounting policies used in the preparation of the financial statements are consistent with those of last year.

The Company's business review

Vattenfall A/S has been responsible for the Danish activities of the Vattenfall Group, which comprised of the production of electricity and heat. Following a decision by the Group, the company has sold the power stations in 2016. The Vattenfall Group has decided to focus on wind power production in Denmark through the subsidiary Vattenfall Vindkraft A/S and focusing on growing the customer business in Denmark.

The Vattenfall A/S business-to-business power sales area still remains in the company in addition to a number of group staff functions.

Market overview

Given that the companies business-to-business sales activities are run as a service provider setup for the Swedish parent company, the companies exposure to the market is limited to variations in the totals of margin achieved.

Unusual matters having affected the financial statements

The sale of the Hillerød and Helsingør power plants was completed in previous years, however, a complaint was made that the pre-emptive right to a transmission line attached to the units was not exercised, the matter was settled during 2017 following a court decision at Østre Landsret and the transmission line has been handed over to the new owner.

Development in financial activities and matters

The Company's income statement for 2017 shows a loss of DKK 9,558 thousand against a profit of DKK 149,132 thousand last year. The Company's balance sheet at 31 December 2017 shows equity of DKK 381,210 thousand. The result went as expected for the year.

Management's review

Profit for the year compared with previously expressed expectations

The result of the year is impacted by activities linked to the finalisation of the sale of the heat transmission line and a number of settlements regarding earlier relations connected to the Heat and Powerstations.

Knowledge resources

At 31 December 2017, Vattenfall A/S employs 18 people (2016: 20). The employees work at the Company's two offices in Copenhagen and Kolding, respectively. The nature of their work is of administrative character.

Recognition and measurement uncertainties

Following the sale of the power plants the operational exposure has been eliminated.

Market risks

The company is not facing any exposure to market- and price risk forward looking in the current setup.

Events after the balance sheet date

No events to report

Operations

Although the sale of the power plants has removed the main cause for safety threats, maintaining a high safety standard is still a core value in the company. The Vattenfall Group has safety as one of its core values which includes focus on administrative functions as well.

Research and development activities

Following the sale of the operating units, Vattenfall A/S is not any longer part of any R&D activities.

Corporate social responsibility

Vattenfall A/S refers to the Vattenfall Group policies in the CSR area in compliance with ÅRL §99a on the reporting of corporate social responsibility.

The Vattenfall Group has decided to comply with the principles defined in the UN Global Compact guidelines, and therefore, Vattenfall's corporate social responsibility work is subject to these principles. Vattenfall's corporate social responsibility work comprises seven areas:

- Environmental impact
- Business ethics
- Anti-corruption policies
- Human rights
- Working environment
- Ethnic diversity
- Gender equality

The results of the environmental efforts are discussed below.

The Company's work in relation to business ethics and anti-corruption policies is reflected in the Company's code of conduct together with a systematic registration of suppliers.

Impact on the external environment

It is Vattenfall's goal that the Group should be a leading developer of environmental, sustainable energy production. Vattenfall has during 2017 defined a new purpose "Power Climate Smarter Living".

Management's review

Vattenfall exists to help all our customers power their lives in ever climate smarter ways and free from fossil fuel within one generation. The world urgently needs to find alternative ways of powering and heating its businesses, cities and homes more cleanly. Change has to happen, and fast. The solution is energy that is 100% free from fossil fuel and that powers all aspects of people's lives, including heating, transportation and manufacturing. Power Climate Smarter Living has been defined as Vattenfall's purpose and is the starting point for the strategy.

Following the purpose statement strategic objectives have been defined as

- Leading towards sustainable consumption
- Leading towards sustainable production
- Having high performing operations
- Having empowered and engaged people

Corporate social responsibility (CSR)

Vattenfall depends on local communities, employees, customers and society at large, including the Company's immediate neighbours, policymakers, environmental organisations, owners and financial markets.

Without the confidence and trust of the surrounding world, we will not be able to operate and develop our business – in short: corporate responsibility creates value. Open and transparent dialogue and corporate responsibility are key to our day-to-day operations.

Each year, Vattenfall publishes a CSR report (on the Group's social responsibility) which complies with the guidelines of Global Reporting Initiative (GRI). The CSR report provides information that enables the measurement and assessment of the Company's ability to meet the expectations of local communities. The report gives access to data on Vattenfall's results in an environmental, social and financial perspective. Read the CSR report and download it at Vattenfall's website:

https://corporate.vattenfall.com/globalassets/corporate/investors/annual_reports/2018/vattenfall_annual_and_sustainability_report_2017_eng.pdf

Safety is one our core values which also involves the safety of our employees, business partners and local communities. We must always make sure that our operations do not interfere with public health and safety. Vattenfall's definition of absence owing to industrial accidents is reflected in a financial ratio that is included in the monthly follow-up of all entities.

Vattenfall's working environment policy supports this work, and the Company is OHSAS 18001 certified. The working environment organisation at the individual locations ensures on a daily basis that the safety rules are complied with. Improvements to the working environment are continuously made in all departments of the Company.

The Company aims to increase the awareness, skills and knowledge of safety and health and to develop a safety and health culture. All employees at Vattenfall must be role models.

Account of the gender composition of management

The Board of Directors of Vattenfall A/S has set a goal for the under-represented gender in the board at 33-40%. It is the Board of Directors' intention to meet the goal by the end of 2019. At present, the under-represented gender accounts for 0% of the three board members appointed by the general meeting of shareholders. The company is evaluating the options to increase the gender equality at every change in the Board, which has also been the case in 2017. The search could not identify relevant candidates to increase gender equality. The chairman of the Board resigned during the year and was replaced by Michael Simmelsgaard in May 2017. The company assesses how to meet its 33% goal.

Moreover, the Board of Directors has confirmed that the Vattenfall group policy, which aims to increase the number of female leaders, also represents a goal for Vattenfall A/S.

The policy includes a definition of goals for newly appointed leaders in the Group's business units, goals for the group management's participation in support activities and the Group's introduction of an international mentoring programme for potential female leaders that is designed to help women create new career and leadership opportunities.

Following the sale of the power stations no new managers have been appointed during the financial year 2017.

Outlook

Given the completion of the last sales transaction of the heat transmission line, the company will be active within the Business-to-Business sales segment and a few corporate staff function remain within Vattenfall A/S. Operationally a result close to zero is expected for the coming year.

Financial statements for the period 1 January – 31 December

Income statement

Note	DKK'000	2017	2016
3	Revenue	178,434	204,098
4	Other operating income	0	12,475
	Cost of sales	-176,654	-166,515
5	Other external expenses	-21,585	-44,891
	Gross margin	-19,805	5,167
6	Staff costs	-20,714	-22,953
	Amortisation and depreciations	-929	-924
	Operating profit/loss	-41,448	-18,710
7	Financial income	9,521	146,970
8	Financial expenses	-1,242	-133,300
	Profit/loss before tax	-33,169	-5,040
9	Tax on profit/loss for the year	23,611	154,172
	Profit/loss for the year	-9,558	149,132

Financial statements for the period 1 January – 31 December

Balance sheet

Note	DKK'000	2017	2016
	ASSETS		
	Non-Current Assets		
10	Property, plant and equipment		
	Fixtures and fittings, tools and equipment	2,294	1,941
	Property, plant and equipment	2,294	1,941
	Total Non-current assets	2,294	1,941
	Current Assets		
	Receivables		
	Trade receivables	38,215	30,421
11	Receivables from group entities	323,631	604,258
	Tax receivables	21,203	0
12	Other receivables	62,582	72,376
	Receivables	445,631	707,055
	Cash	25	12,880
	Total current assets	445,656	719,935
	TOTAL ASSETS	447,950	721,876

Financial statements for the period 1 January – 31 December

Balance sheet

Note	DKK'000	2017	2016
	EQUITY AND LIABILITIES		
	Equity		
13	Share capital	10,000	10,000
	Retained earnings	371,209	380,768
	Total equity	381,210	390,768
	Provisions		
	Other provisions	1,000	7,500
	Total provisions	1,000	7,500
	Current liabilities other than provisions		
14	Prepayments received from customers	0	21,547
	Trade payables	5,630	4,691
	Payables to group entities	48,608	147,106
	Payables to associates	0	3
15	Other payables	11,502	150,261
	Total current liabilities other than provisions	65,740	323,608
	Total current liabilities	66,740	323,608
	TOTAL EQUITY AND LIABILITIES	447,950	721,876

- 1 Accounting policies
- 2 Recognition and measurement uncertainties
- 16 Contractual obligations and contingencies, etc.
- 17 Related parties
- 18 Fee to the auditors appointed by the Company in general meeting
- 19 Proposed dividend recognised under equity

Financial statements for the period 1 January – 31 December

Statement of changes in equity

DKK'000	Share capital	Proposed dividends	Retained earnings	Total
Equity at 1 January 2016	1,004,000	0	-66,564	937,436
Proposed dividend for the year	0	0	0	0
Capital reduction with 70 % pay out to shareholder	-994,000	0	298,200	-695,800
Profit/loss for the year	0	0	149,132	149,132
Equity at 1 January 2017	10,000	0	380,768	390,768
Dividend distributed	0	0	0	0
Proposed dividend for the year	0	0	0	0
Profit/loss for the year	0	0	-9,558	-9,558
Equity at 31 December 2017	10,000	0	371,210	381,210

Financial statements for the period 1 January – 31 December

Notes to the financial statements

1 Accounting policies

The annual report of Vattenfall A/S for 2017 has been presented in accordance with the provisions of the Danish Financial Statements Act as regards large reporting class C enterprises.

Vattenfall A/S has in 2017 changed the presentation of the income statement from cost by function to cost by nature in order to better reflect the activity of the entity and pre-implement a corporate decision to apply the cost by nature presentation going forward.

The change does not have any impact on the net profit/loss for the period.

Comparative figures have been adjusted.

The Company has in 2017 changed the classification of certain income and costs related to financial instruments. The reclassification has reduced revenue with DKK 232 thousand and cost of sales with DKK 33 thousand. Comparable figures for 2016 have been adjusted accordingly reducing revenue by DKK 142,418 thousand and cost of sales by DKK 130,487 thousand.

The company has also changed the classification of certain revenue by deduction of other indirect taxes, impacting the comparable figures in cost of sales by a reduction of DKK 40,128 thousand and with an identical decrease of revenue.

With the exception of changes in the financial statement, the financial statement is reporting after same accounting policies as last year.

Omission of a cash flow statement

With reference to section 86(4) of the Danish Financial Statements Act, no cash flow statement has been prepared. The entity's cash flows are part of the consolidated cash flow statement for the parent company, Vattenfall AB.

Consolidated financial statements

Referring to section 112(1) of the Danish Financial Statements Act, no consolidated financial statements are prepared. The financial statements for Vattenfall A/S and its group entities are part of the consolidated financial statements for Vattenfall AB.

Basis of recognition and measurement

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 reliably measured.

Liabilities are recognised in the balance sheet when, as a result of past events, the Company has a legal or a constructive obligation, when an outflow of economic benefits is probable and when the value of the liability can be reliably measured.

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

In recognising and measuring assets and liabilities, any predictable losses and risks occurring prior to the presentation of the annual report that evidence conditions existing at the balance sheet date are taken into account.

Income is recognised in the income statement as earned while costs are recognised at the amounts relating to the financial year. Value adjustments of financial assets and liabilities are recognised in the income statement as financial income or financial expenses.

Reporting currency

The financial statements are presented in Danish kroner (DKK'000).

Foreign currency translation

On initial recognition, transactions denominated in foreign currencies are translated at the exchange rate at the transaction date. Foreign exchange differences arising between the exchange rates at the transaction date and the date of payment are recognised in the income statement as financial income or financial expenses.

Financial statements for the period 1 January – 31 December

1 Accounting policies

Receivables and payables and other monetary items denominated in foreign currencies are translated at the exchange rate 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 most recent financial statements is recognised in the income statement as financial income or financial expenses.

Derivative financial instruments

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

Changes in the fair value of derivative financial instruments designated as and qualifying for recognition as a hedge of the fair value of a recognised asset or liability are recognised in the income statement together with changes in the fair value of the hedged asset or liability.

Changes in the fair value of derivative financial instruments designated as and qualifying for recognition as a hedge of future cash flows are recognised in receivables or payables and in equity. If the future transaction results in recognition of assets or liabilities, amounts previously recognised in equity are transferred to the cost of the asset or liability, respectively. If the hedged forecast transaction results in income or expenses, amounts previously deferred in equity are transferred to the income statement in the period in which the hedged item affects profit or loss.

For derivative financial instruments that do not qualify for hedge accounting, changes in fair value are recognised in the income statement on a regular basis.

Income statement

Revenue

Income from the sale of electricity, heating and other related services is recognised in revenue at the time of delivery and when the risk passes to the buyer, provided that the income can be made up reliably. Revenue is measured net of VAT and other indirect taxes and discounts/rebates granted.

Income from the sale advisory services is recognised in revenue as the service is provided.

Realised and unrealised gains and losses on commodity-based derivative financial instruments are included in the revenue.

Revenue is measured at the fair value of the agreed consideration excluding VAT and taxes charged on behalf of third parties. All discounts and rebates granted are recognised in revenue.

Cost of sales

Cost of sales comprise costs incurred in generating revenue for the year. Such costs include direct and indirect costs related to purchase of electricity.

Other operating income

Other operating income comprises the expenses incurred by the Company to generate the revenue for the year. Such expenses are recognised in the income statement as incurred.

Other external expenses

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

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.

Financial statements for the period 1 January – 31 December

Notes to the financial statements

1 Accounting policies (continued)

Amortisation/depreciation and impairment of intangible assets and property, plant and equipment

The item comprises amortisation/depreciation and impairment of intangible assets and property, plant and equipment.

Where individual components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items, which are depreciated separately.

The basis of depreciation, which is calculated as cost less any residual value, is depreciated on a straight line basis over the expected useful life. The expected useful lives of the assets are as follows:

Fixtures and fittings, tools and equipment	3-5 years
Minor equipment (cars, trucks, office equipment and IT equipment)	3-7 years

Financial income and financial expenses

Financial income and expenses are recognised in the income statement at the amounts relating to the financial year. Financial income and expenses comprise interest income and expense, realised and unrealised gains and losses on transactions denominated in foreign currencies as well as surcharges and refunds under the tax prepayment scheme, etc

Tax

Tax for the year includes current tax on the year's expected taxable income and the year's deferred tax adjustments. The portion of the tax for the year that relates to the profit/loss for the year is recognised in the income statement, whereas the portion that relates to transactions taken to equity is recognised in equity.

The Company and its Danish group entities are jointly taxed. The Danish income tax charge is allocated between profit making and loss making Danish entities in proportion to their taxable income).

Jointly taxed entities entitled to a tax refund are reimbursed by the management company based on the rates applicable to interest allowances, and jointly taxed entities which have paid too little tax pay a surcharge according to the rates applicable to interest surcharges to the management company.

Financial statements for the period 1 January – 31 December

Notes to the financial statements

1 Accounting policies (continued)

Balance sheet

Property, plant and equipment

Property, plant and equipment, including land and buildings, leasehold improvements, production plant and non-current assets, are measured at cost less accumulated amortisation and impairment losses. The cost of self-constructed assets comprises direct and indirect costs of materials, components, sub-suppliers and wages. The estimated costs for dismantling and removing as well as restoring the asset are added to the cost of property, plant and equipment if such costs are recognised as a provision.

Where individual components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items, which are depreciated separately.

Property, plant and equipment in the course of construction are recognised as property, plant and equipment in the course of construction in the balance sheet until the application date. After the application date, these assets are transferred to the relevant financial statement items under property, plant and equipment.

Subsequent costs, e.g. in connection with replacement of components of property, plant and equipment, are recognised in the carrying amount of the asset if it is probable that the costs will result in future economic benefits for the Company. The replaced components are derecognised in the balance sheet, and their carrying amount is transferred to profit or loss for the year. All other costs incurred for repair and maintenance are recognised in profit or loss as incurred.

The item also recognises strategic spare parts for production plant. These are depreciated over a period of usually ten years. When such spare parts are used in the production plant, a write-down of the spare part asset is recorded in the income statement as maintenance costs that are included in the item production costs.

Property, plant and equipment that are leased and qualify as finance leases are treated in accordance with the same guidelines as owned assets. The cost of assets held under finance leases is measured at the lower of the cost according to the lease agreements and the present value of the lease payments calculated on the basis of the interest rates implicit in the lease agreements.

Impairment tests are conducted of property, plant and equipment if there are indications of impairment losses. The impairment test is conducted of each individual asset or group of assets, respectively. The assets are written down to the higher of the value in use and net realisable value (recoverable amount) of the asset or group of assets if this is lower than the carrying amount.

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 has been impaired, an impairment loss is recognised on an individual basis.

Receivables in respect of which there is no objective evidence of individual impairment are tested for objective evidence of impairment on a portfolio basis. The portfolios are primarily based on the debtors' domicile and credit ratings in line with the Company's risk management policy. The objective evidence applied to portfolios is determined based on historical loss experience.

Impairment losses are calculated as the difference between the carrying amount of the receivables and the present value of the expected cash flows, including the realisable value of any collateral received. The effective interest rate for the individual receivable or portfolio is used as discount rate.

Other receivables

Deposits, etc., are recognised under other receivables. These assets are measured at cost.

Financial statements for the period 1 January – 31 December

Notes to the financial statements

1 Accounting policies (continued)

Prepayments

Prepayments recognised under "Assets" comprise prepaid expenses regarding subsequent financial reporting years.

Equity

Proposed dividends

Dividend proposed for the financial year are presented as a separate item under "Equity".

Revaluation reserve

The fair value adjustment reserve of financial contracts under equity comprises accumulated net changes in fair value of hedging transactions that qualify as a cash flow hedge and for which the hedged transaction has not yet been realised.

Provisions

Provisions comprise expected future costs for dismantling and restoration of production plant, etc., contracts entered into regarding future delivery of goods as well as additional emissions compared to the emission rights granted (CO₂ quotas).

Provisions are recognised when the enterprise has a legal or a constructive obligation and it is probable that there may be an outflow of resources embodying economic benefits to settle the obligation.

Provisions that are expected to be repaid later than one year after the balance sheet date are measured at the present value of the expected payments. Other provisions are measured at net realisable value.

The value of provisions related to dismantling and restoration of production plant is recognised in property, plant and equipment and depreciated together with the relevant assets. The increase of the present value due to the passage of time is recognised in the income statement as financial expenses.

Corporation tax

Current tax payable and receivable is recognised in the balance sheet as tax computed on the expected taxable income for the year, adjusted for tax on the taxable income of prior years and for prepaid tax.

Deferred tax is measured according to the liability method on all temporary differences between the carrying amount and the tax base of assets and liabilities. However, deferred tax is not recognised on temporary differences relating to goodwill which is not deductible for tax purposes and on office premises and other items where temporary differences, apart from business combinations, arise at the date of acquisition without affecting either profit/loss for the year or taxable income. Where alternative tax rules can be applied to determine the tax base, deferred tax is measured based on Management's intended use of the asset or settlement of the liability, respectively.

Deferred tax is measured according to the tax rules and at the tax rates applicable at the balance sheet date when the deferred tax is expected to crystallise as current tax. Deferred tax assets are recognised at the expected value of their utilisation; either as a set-off against tax on future income or as a set-off against deferred tax liabilities in the same legal tax entity. Changes in deferred tax due to changes in the tax rate are recognised in the income statement.

Liabilities

Financial liabilities are recognised at the date of borrowing at the net proceeds received less transaction costs paid. On subsequent recognition, financial liabilities are measured at amortised cost, corresponding to the capitalised value, using the effective interest rate. Accordingly, the difference between the proceeds and the nominal value is recognised in the income statement over the term of the loan. Financial liabilities also include the capitalised residual lease liability in respect of finance leases.

Other liabilities are measured at net realisable value.

Financial statements for the period 1 January – 31 December

Notes to the financial statements

1 Accounting policies (continued)

Segment information

Information is provided on business segments. Segment information is based on the Company's accounting policies, risks and internal financial management. Assets in the segment comprises the assets that are used directly in the revenue-generating activity of the segment. Segment liabilities comprise liabilities resulting from the activities of the segment, including trade and other payables.

Financial ratios

Financial ratios are calculated in accordance with the Danish Finance Society's guidelines on the calculation of financial ratios "Recommendations and Financial Ratios 2015".

The financial ratios stated under "Financial highlights" have been calculated as follows:

Operating margin	$\frac{\text{Operating profit} \times 100}{\text{Revenue}}$
Gross margin ratio	$\frac{\text{Gross margin} \times 100}{\text{Revenue}}$
Return on assets	$\frac{\text{Profit/loss from operating activities} \times 100}{\text{Average assets}}$
Solvency ratio	$\frac{\text{Equity at year end} \times 100}{\text{Total equity and liabilities at year end}}$
Return on equity	$\frac{\text{Profit/loss for the year after tax} \times 100}{\text{Average equity}}$

Financial statements for the period 1 January – 31 December

Notes to the financial statements

2 Recognition and measurement uncertainties

The computation of the carrying amount of certain assets and liabilities requires assessments, estimates and assumptions regarding future events. The estimates used are based on historical experience and other factors which by Management are assessed to be reliable, but which by nature are associated with uncertainty. The assumptions may be incomplete or incorrect, and unexpected events or circumstances may arise.

3 Revenue

The Company renders goods and services only in Denmark.

Revenue is distributed in the following segments:

DKK'000	2017	2016
Sale of electricity, etc.	147,980	175,251
Other services	30,454	28,847
Total revenue	178,434	204,098

4 Other operating income

Other operating income comprises items of a secondary nature relative to the Company's core activities, including gains on the sale of fixed assets.

5 Other external expenses

Operating expenses comprise items of a secondary nature relative to the Company's core activities, including losses on the sale of fixed assets.

6 Staff costs

Staff costs are recognised as follows:

DKK'000	2017	2016
Wages and salaries	19,109	21,314
Pensions	1,515	1,620
Other social security costs	90	19
Total staff costs	20,714	22,953
Average number of full-time employees	18	20

According to section 98 (b)(3) of the Danish Financial Statements Act, remuneration of the Executive Board is not disclosed. No remuneration was paid to the Board of Directors (2016: DKK 0).

Financial statements for the period 1 January – 31 December

Notes to the financial statements

DKK'000	2017	2016
7 Financial income		
Interest income, exchange rate gain and similar income	5	2,790
Interest income, group entities	9,233	1,762
Financial instruments, exchange adjustment of electricity options	283	142,418
Total other financial income	9,521	146,970
8 Financial expenses		
Interest expense, exchange rate loss and similar expenses	260	2,611
Interest expense, group entities	949	202
Financial instruments, exchange adjustment of electricity options	33	130,487
Total other financial expenses	1,242	133,300
9 Tax on the profit/loss for the year		
Utilisation of tax from joint taxation	21,228	239,608
Adjustment of deferred tax	0	-136,262
Adjustment regarding prior year	2,383	50,826
	23,611	154,172
10 Property, plant and equipment		
	Fixtures and fittings, tools and equipment	Total
Cost at 1 January 2017	1,941	1,941
Additions	1,282	1,282
Transferred	0	0
Disposals	0	0
Cost at 31 December 2017	3,223	3,223
Impairment losses and depreciation at 1 January 2017	0	0
Depreciations	-929	-929
Write-downs	0	0
Reversed depreciations concerning disposals	0	0
Impairment losses and depreciation at 31 December 2017	-929	-929
Carrying amount at 31 December 2017	2,294	2,294

Financial statements for the period 1 January – 31 December

Notes to the financial statements

11 Receivables from group entities

Included in receivables from group entities is a group cash-pool receivable of DKK 356,180 thousand (2016: DKK 604,258 thousand).

12 Other receivables

DKK'000	2017	2016
Deposits	667	667
Derivative financial instruments	4,939	11,777
Other receivables	56,976	59,932
Total other receivables	62,582	72,376

13 Share capital

The share capital consists of the following:

DKK'000	2017	2016
100,000 A-shares of DKK 100 each	10,000	10,000
Total share capital	10,000	10,000

Analysis of changes in the share capital over the past five years:

DKK'000	2017	2016	2015	2014	2013
Balance at 1 January	10,000	1,004,000	1,004,000	1,004,000	1,004,000
Cash capital increase					
Capital reduction to cover loss	0	-994,000	0	0	0
Balance at 31 December	10,000	10,000	1,004,000	1,004,000	1,004,000

14 Prepayments received from customers

Prepayments recognised as a liability comprise payments received concerning income in subsequent financial reporting years.

15 Other payables

	2017	2016
VAT and other indirect taxes	0	14,212
Wages/salaries, salary taxes, social security contributions, etc.	4,978	3,717
Other accrued expenses	6,524	132,332
Total other debt	11,502	150,261

Financial statements for the period 1 January – 31 December

Notes to the financial statements

16 Contractual obligations and contingencies, etc.

As management company, the Company is jointly taxed with other Danish group entities and is jointly and severally liable with other jointly taxed group entities for payment of income taxes for the income year 2013 onwards as well as withholding taxes on interest, royalties and dividends falling due for payment on or after 1 July 2012.

Other financial obligations

Other rent and lease liabilities:

DKK'000	2017	2016
Rent and lease liabilities	0	2,933

All contracts for rent and leases are in 2017 moved to other group company.

17 Related parties

According to section 98 (7) of the Danish Financial Statements Act, all transactions between the company and its related parties are carried out on market terms. Except for the non-collection of negative interest on net bank deposits in the Group's cash pool arrangement.

Parties exercising control

Related party	Domicile	Basis for control
Vattenfall AB	16287 Stockholm, Sweden	Parent

Information about consolidated financial statements

Parent	Domicile	Requisitioning of the parent company's consolidated financial statements
Vattenfall AB	16287 Stockholm, Sweden	www.vattenfall.com

Ownership

The following shareholders are registered in the Company's register of shareholders as holding minimum 5% of the votes or minimum 5% of the share capital:

Name	Domicile
Vattenfall AB	16287 Stockholm, Sweden

18 Fee to the auditors appointed by the Company in general meeting

Audit fees are not disclosed with reference to section 96(3) of the Danish Financial Statements Act. The fee is specified in the consolidated financial statements for Vattenfall AB.

19 Proposed dividend recognised under equity

	2017	2016
Profit/loss for the year	-9,558	149,132
Amount available for distribution	-9,558	149,132
Proposed dividend	0	0
Retained earnings	-9,558	149,132
Retained earnings/accumulated loss	-9,558	149,132