Vattenfall A/S

Jupitervej 6, 6000 Kolding

CVR no. 21 31 13 32

Annual report 2015

Approved at the annual general meeting of shareholders on 31/5 2016

Chairman:

Contents

Statement by the Board of Directors and the Executive Board	2
Independent auditors' report	3
Management's review	4
Company details	4
Financial highlights	5
Operating review	6
Financial statements for the period 1 January - 31 December	11
Income statement	11
Balance sheet	12
Statement of changes in equity	14
Notes to the financial statements	15

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 2015.

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 2015 and of the results of the Company's operations for the financial year 1 January - 31 December 2015.

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 2016
Executive Board:

Jørgen Nielsen

Board of Directors:

Tuomo Juhani Hatakka Chairman	Lars Peter Joelsson	Jørgen Nielsen

Independent auditors' report

To the shareholders of Vattenfall A/S

Independent auditors' report on the financial statements

We have audited the financial statements of Vattenfall A/S for the financial year 1 January - 31 December 2015, which comprise an income statement, balance sheet, statement of changes in equity and notes, including a summary of significant accounting policies. The financial statements are prepared in accordance with the Danish Financial Statements Act.

Management's responsibility 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 that Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing and additional requirements under Danish audit regulations. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the Company's preparation of financial statements that give a true and fair view 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as evaluating the overall presentation of the financial statements.

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

Our audit has not resulted in any qualification.

Opinion

In our opinion, the financial statements give a true and fair view of the Company's financial position at 31 December 2015 and of the results of its operations for the financial year 1 January - 31 December 2015 in accordance with the Danish Financial Statements Act.

Statement on the Management's review

Pursuant to the Danish Financial Statements Act, we have read the Management's review. We have not performed any other procedures in addition to the audit of the financial statements. On this basis, it is our opinion that the information provided in the Management's review is consistent with the financial statements.

Copenhagen, 31 May 2016
ERNST & YOUNG
Godkendt Revisionspartnerselskab
CVR No. 30 70 02 28

Torben Bender	Karsten Bøgel
State Authorised Public Accountant	State Authorised Public Accountant

Management's review

Company details

Name	Vattenfall A/S
Address, Postal code, City	Jupitervej 6, 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
E-mail	vattenfall.danmark@vattenfall.com
Board of Directors	Tuomo Juhani Hatakka, Chairman Lars Peter Joelsson Jørgen Nielsen
Executive Board	Jørgen Nielsen
Auditors	Ernst & Young Godkendt Revisionspartnerselskab Osvald Helmuths Vej 4, P O Box 250, 2000 Frederiksberg, Denmark
Bankers	Nordea

Management's review

Financial highlights

DKK'000	2015	2014	2013	2012	2011
Key figures					
Revenue	1,166,758	2,503,753	4,451,374	4,062,990	4,587,141
Operating profit/loss	-320,219	28,643	-41,513	-1,434,022	-49,213
Net financials	8,054	-21,729	3,721	-328,819	8,875
Profit/loss for the year	**-311,705**	**84,335**	**24,208**	**-1,967,566**	**-19,010**
Non-current assets	810,661	2,305,701	3,374,473	4,716,904	6,671,627
Current assets	680,357	1,497,719	3,435,145	1,473,688	5,079,259
Total assets	**1,491,018**	**3,803,420**	**6,809,618**	**6,190,592**	**11,750,886**
Investment in property, plant and equipment	22,615	77,665	254,648	190,656	261,648
Equity	**937,436**	**2,349,141**	**2,764,808**	**2,740,600**	**7,843,509**
Financial ratios					
Operating margin	-27.4%	1.1%	-0.9%	-35.3 %	-1.1 %
Gross margin	0.4%	6.3%	3.5%	-0.8%	2.8%
Return on assets	-12.1%	0.5%	-0.6%	-16.0%	-0.4%
Solvency ratio	62.9%	61.8%	40.6%	44.3%	66.7%
Return on equity	-19.0%	3.3%	0.9%	-37.2%	-0.2%
Average number of employees	**177**	**306**	**515**	**545**	**581**

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

Management's review

Operating review

The Company's business review

Vattenfall A/S is responsible for the Danish activities of the Vattenfall AB Group, within the production of electricity and heat based on coal, biomass and waste as well as sale of electricity and other energy-related products.

Market overview

Market The Danish energy market is an integral part of the Nordic energy market and is also associated with the German electricity market. Consequently, Vattenfall A/S' activities are exposed to competition from other Nordic suppliers and players and to the climate conditions in all the Nordic countries. In recent years, the electricity market in the Nordic countries has changed significantly from being a market characterised by large production units to a market characterised by many minor individual production units which are based on wind or solar energy and which receive financial support. The strong expansion of renewable energy means that, for Denmark, the electricity production of wind turbines covered 42% of the electricity consumption in Denmark in 2015. Therefore, electricity prices, and consequently the contribution margin of power plant-based electricity generation, are under pressure. As a result, power plant owners are experiencing decreasing return on capital employed, which has contributed to the close-down of a number of power plant units in Denmark and around Europe.

Vattenfall expects that this development will continue, and this is one of the reasons behind the sale of the thermal assets in the Vattenfall A/S portfolio.

Unusual matters having affected the financial statements

In recent years, electricity generation has risen owing to the expansion of especially wind power as well as solar power, which leads to significant, short-term price fluctuations due to weather conditions, reductions in peak-price hours and periods with continuously very low prices. This leads to very difficult market conditions for generators of power plant-based electricity owing to the low contribution margin.

Although general earnings improved marginally compared to 2014, the combination of warm winter periods and high volumes of wind power production have reduced the demand for heat and the electricity prices in the Nordic countries.

As is the case for income from electricity generation, variable costs (primarily coal and CO2 quota prices) are dynamic. In general, coal prices decreased in 2015, whereas the CO2 quota prices remained at a very low level during the entire year due to the oversupply of CO2 quotas. The cost reductions could not offset the negative revenue impact from lower electricity prices.

Overall, due to the development in electricity, coal and CO2 prices in the context of the financial risk hedging, 2015 saw negative and unsatisfactory results relative to the cost of capital and the purchase price.

Operations of Vattenfall's Danish power plant were stable in 2015.

As part of the Vattenfall Group's aim to reduce the exposure to fossil-based electricity generation, investigations into the possibility of disposing of power plants in Denmark have been ongoing for a number of years. During 2015, an agreement was entered into with Aalborg Kommune Forsyning on the sale of the power plant Nordjyllandsværket executed at the beginning of 2016.

The disposal of the Hillerød, Helsingør and Amager power plants was completed in previous years; however, a complaint was made that the pre-emptive right to a heat transmission line attached to the units was not exercised, and therefore, this transmission line could not be disposed of. Vattenfall still owns the heat transmission line, which is rented out to local stakeholders.

Management's review

Operating review

Financial review

The Company's income statement for 2015 shows a loss of DKK 311,705 thousand against a profit of DKK 84,335 thousand last year. The Company's balance sheet at 31 December 2015 shows equity of DKK 937,436 thousand.

On 1 January 2015, Vattenfall A/S sold Fynsvaerket to Fjernvarme Fyn with effect from 1 April 2015.

The Powerplant of Fyn was transferred to a subsidiary of Vattenfall A/S at 1 January 2016, as a sales agreement was entered with Fynsværket at 1 April 2015.

In 2015, Vattenfall A/S negotiated an agreement with Aalborg Kommune about selling Nordjyllandsværket with effect from 1 January 2016. The Sales and Purchase Agreement was signed on 4 January 2016. From 2016, Vattenfall does not operate any power plants.

The Company reported a loss of DKK 311,705 thousand in the year under review, which does not live up to expectations. The loss is affected by a write-down of DKK 259,889 thousand regarding Nordjyllandsværket.

In respect of operations, Vattenfall A/S has maintained a high safety level while at the same time maintaining a high degree of effectiveness by carrying out preventive measures in primary plants based on overall assessments made by the Company's own employees, suppliers and subcontractors.The Company's power plants have had a high degree of flexibility.

Knowledge resources

At 31 December 2015, Vattenfall A/S employs 129 people (2014: 290), of whom 98 were employed at the power plants. The remaining employees work at the Company's two offices in Copenhagen and Kolding, respectively. Due to the disposal of Nordjyllandsværket, 101 employees will leave the Company at 2 January 2016.

Special risks

In previous years, the Company has been exposed to uncertainties following the need to estimate dismantling and restoration costs. As the portfolio has been sold, no such uncertainties existed at 31 December 2015.

Given the sales process, the Company is not facing any exposure to market or price risks going forward.

For 2015, the Company was exposed to risk relating to the purchase of raw materials (primarily coal), CO2 quotas and revenue generated from the sale of electricity. The Company is not exposed to any market price changes going forward.

Impact on the external environment

It is Vattenfall's goal that the Group should be a leading developer of environmental, sustainable energy production. Vattenfall's ambitions are reflected in the goals for 2020 of the Vattenfall Group to reduce absolute CO2 emissions from 90 million tons to 65 million tons. Vattenfall A/S has contributed to the development by implementing two biomass-based plants during the last five years.

Production of electricity and heat is fundamental to the infrastructure of local communities and has major impacts on the environment through the use of resources and emissions to air and spills to water. The use of resources includes the use of fossil fuel, water for process purposes, ancillary materials and chemicals for water treatment.

Combustion of coal, biomass and oil leads to emission of carbon dioxide (CO2), sulphur dioxide (SO2), nitrogen oxide (NOx), dust and a number of microelements. The environmental impacts include greenhouse effect and acidification. As Vattenfall uses desulphurisation plants at the power plants, where approximately 95% of the sulphur is removed, the acidification is very modest. All coal-fired units use catalytic cleaning for NOx (DeNOx) and NOx emissions are kept at a minimum.

Management's review

Operating review

The raw materials used in the power plants primarily consist of fuel and water. Moreover, caustic lime is used in connection with flue gas purification. Acid and leaching solutions are used in connection with the water production of for instance additional water for the district heating network, and small quantities of a number of other chemicals are added in connection with shop and maintenance work.

Clean surface water and clean water from water production for the district heating network are recycled or drained to the recipient. Surface water that does not qualify for direct discharge is drained to water retention basins and is recycled to the extent possible. Sanitary sewage water and water that cannot be recycled are drained to the local sewage installation. Cooling water is received from and recycled to the recipient. Discharge of water that has been used for cooling results in a modest temperature increase that may affect vegetation, oxygen concentration and wildlife.

Mineral products are recycled in the following way:

- Fly ash from coal-firing (coal fly ash) is recycled in the cement and concrete industry.
- Cinder from coal firing (coal bottom ash) is used in filling projects in connection with road construction.
- Dry desulphuriser from the desulphurisation process in dry desulphurisation plant is recycled to the extent possible in the desulphurisation process in wet desulphurisation plant.

Waste is collected and sorted for recycling, combustion or storage in accordance with local waste regulations.

Vattenfall A/S meets all these conditions in accordance with the supervisory authorities' environmental approval of the power plants.

Environmental impacts that are significant and other environmental impacts that require special attention and are subject to marginal values, terms or potential enforcement orders, e.g. in respect of emissions, spills or discharge of polluting waste to water, soil and air, are disclosed in the Company's environmental report.

In general, the environmental data of the power plants are controlled and thoroughly verified in-house, and their interrelationship is assessed in the ongoing reporting to the authorities and other available sources and experiences. Safeguarding the validity and traceability of the data is an integral part of the requirements in the certified environmental system, ISO 14001, of the power plants and in the CO2 verification process.

Furthermore, all environmental meters and measurements are tested on a regular basis in accordance with national and international standards in the area and in accordance with the quality handbooks of the power plants on environmental meters.

Research and development activities

Vattenfall A/S has participated in the joint research and development activities of the Vattenfall Group through programmes that are relevant to the thermal power plant in the form of optimisation projects. However, owing to the deteriorated profitability recorded for the entire power plant sector, activities at group level have decreased. The research and development activities are recognised in the income statement. For 2016, the Company will not participate in these R&D activities anymore due to the sale of its last power station.

Statutory CSR report

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

Management's review

Operating review

- 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.

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 the 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:

http://corporate.vattenfall.com/investors/financial-information/

Safety, which is one of our core values, 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 on the board at 33%. It is the Board of Directors' intention to meet this 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. There were no changes in the Board of Directors during 2015. 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.

In 2015, the number of new manager appointments was close to zero due to the sales process, and no further progress could be made.

Management's review

Operating review

Post balance sheet events

The sale of Nordjyllandsværket was closed on 4 January 2016. Further, the Company will propose a reduction of the share capital in order to lower the capital resources to the reduced operative activities.

In March, the court of Lyngby stated that the exercise of the pre-emptive right regarding the heat transmission line was to be conducted through an income statement as provided by the counterpart. Vattenfall has appealed this decision.

Outlook

Given the sale of the Company's last power station, Vattenfall A/S is expecting reduced activity related to the finalisation of the sales process of the power plants and activities related to the business-to-business sales segment. Based on this, the outlook is expected to be a result close to zero in 2016, excluding the impact from the sale of Nordjyllandsværket.

Financial statements for the period 1 January - 31 December

Income statement

Note	DKK'000	2015	2014
5	**Revenue**	1,166,758	2,503,753
6	Production costs	-1,162,531	-2,346,418
	Gross profit	4,227	157,335
6	Distribution costs	-6,819	-11,882
6	Administrative expenses	-57,951	-94,552
	Ordinary operating profit/loss	-60,543	50,901
	Other operating income	602	5,124
7	Other operating expenses	-260,189	-25,732
	Research and development costs	-89	-1,650
	Operating profit/loss	-320,219	28,643
	Income from investments in group entities and associates	460	0
8	Financial income	17,287	3,273
9	Financial expenses	-9,233	-25,002
	Profit/loss before tax	-311,705	6,914
10	Tax for the year	0	77,421
	Profit/loss for the year	-311,705	84,335

	2015	2014
Proposed profit appropriation/distribution of loss		
Proposed dividend recognised under equity	0	1,100,000
Retained earnings/accumulated loss	-311,705	-1,015,665
	-311,705	84,335

Financial statements for the period 1 January - 31 December

Balance sheet

Note	DKK'000	2015	2014
	ASSETS		
	Non-current assets		
11	**Intangible assets**		
	Acquired intangible assets	6,935	41,077
		6,935	41,077
12	**Property, plant and equipment**		
	Land and buildings	72,156	306,942
	Plant and machinery	719,067	1,840,028
	Other fixtures and fittings, tools and equipment	11,169	61,108
	Property, plant and equipment in progress	0	54,546
		802,392	2,262,624
13	**Investments**		
	Investments in group entities, net asset value	0	1,000
	Investments in associates, net asset value	1,334	1,000
		1,334	2,000
	Total non-current assets	810,661	2,305,701
	Current assets		
14	**Inventories**		
	Raw materials and consumables	57,483	105,730
		57,483	105,730
17	**Receivables**		
	Trade receivables	168,488	251,797
	Receivables from group entities	119,377	547,936
19	Deferred tax assets	136,262	214,000
16	Other receivables	159,846	265,911
15	Prepayments	19,345	49,144
		603,318	1,328,788
	Cash	19,556	63,201
	Total current assets	680,357	1,497,719
	TOTAL ASSETS	1,491,018	3,803,420

Financial statements for the period 1 January - 31 December

Balance sheet

Note	DKK'000	2015	2014
	EQUITY AND LIABILITIES		
	Equity		
18	Share capital	1,004,000	1,004,000
	Retained earnings	-66,564	245,141
	Dividend proposed for the year	0	1,100,000
	Total equity	937,436	2,349,141
	Provisions		
	Other provisions	173,669	682,645
20	**Total provisions**	173,669	682,645
	Liabilities other than provisions		
	Current liabilities other than provisions		
	Lease liabilities	0	11,004
	Derivative financial instruments	28,255	140,609
	Trade payables	42,345	53,815
	Payables to group entities	174,058	303,147
	Payables to associates	2	0
21	Other payables	135,253	263,059
		379,913	771,634
	Total liabilities other than provisions	379,913	771,634
	TOTAL EQUITY AND LIABILITIES	1,491,018	3,803,420

1 Accounting policies
2 Material uncertainties regarding recognition and measurement
3 Events after the balance sheet date
4 Discontinued operations
22 Contractual obligations and contingencies, etc.
23 Related parties
24 Fee to the auditors appointed by the Company in general meeting

Financial statements for the period 1 January - 31 December

Statement of changes in equity

DKK'000	Share capital	Retained earnings	Dividend proposed for the year	Total
Equity at 1 January 2014	1,004,000	1,260,806	500,000	2,764,806
Profit/loss for the year	0	-1,015,665	1,100,000	84,335
Dividend distributed	0	0	-500,000	-500,000
Equity at 1 January 2015	1,004,000	245,141	1,100,000	2,349,141
Profit/loss for the year	0	-311,705	0	-311,705
Dividend distributed	0	0	-1,100,000	-1,100,000
Equity at 31 December 2015	1,004,000	-66,564	0	937,436

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 2015 has been presented in accordance with the provisions of the Danish Financial Statements Act as regards large reporting class C enterprises.

Changes in accounting policies

The Company has in 2015 changed the classification of certain revenue from sale and purchase of power. The reclassification has reduced revenue for 2015 by DKK 426 million with a similar reduction of production costs. Comparable figures for 2014 have been adjusted accordingly (DKK 289 million). Impact on prior year is considered insignficant.

The financial statements have otherwise been presented in accordance with the same accounting policies as were applied last year.

Omission to present 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.

Recognition and measurement in general

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.

Financial statements for the period 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

Business combinations

Enterprises acquired or formed are recognised in the consolidated financial statements from the date of acquisition or formation. Enterprises disposed of are recognised in the consolidated income statement until the date of disposal. Comparative figures are not restated for acquisitions or disposals.

For acquisitions of new businesses over which the Company obtains control, the purchase method is used. The acquired enterprises' identifiable assets and liabilities are measured at fair value at the acquisition date. Identifiable intangible assets are recognised if they are separable or arise from a contractual right, and the fair value can be reliably measured.

Deferred tax on revaluations is recognised. The acquisition date is the date when the Company effectively obtains control of the acquired business.

Any excess of the cost over the fair value of the identifiable assets and liabilities acquired (goodwill), including restructuring provisions, is recognised as intangible assets and amortised on a systematic basis in the income statement based on an individual assessment of the useful life of the asset, not exceeding 20 years.

Intra-group business combinations

Intra-group business combinations are treated according to the pooling of interests method at carrying amounts.

Foreign currency translation

On initial recognition, transactions denominated in foreign currencies are translated at the exchange rates 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.

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 at 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.

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 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.

Financial statements for the period 1 January - 31 December

Notes to the financial statements

1 **Accounting policies (continued)**

Public grants

Government grants include grants for environmentally friendly electricity production, grants for and funding for R&D activities, investment grants, etc. Government grants are recognised when there is reasonable assurance that the grants will be received.

Grants for electricity production are recognised in revenue as the related revenue from the electricity production is recognised.

Emission rights granted are recognised in intangible assets under rights.

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.

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

Other operating income and operating expenses

Other operating income and operating expenses comprise items of a secondary nature relative to the entity's core activities, including gains or losses on the sale of fixed assets.

Production costs

Production costs include expenses incurred to generate the year's revenue. The item includes direct and indirect expenses relating to fuel, consumables, labour, rent and leasing as well as depreciation of productive equipment.

Distribution costs

Distribution costs include expenses relating to sale and distribution in the year, including expenses relating to sales staff, advertising, exhibitions and amortisation/depreciation of assets that are related to sale and distribution of the company's products.

Administrative expenses

Administrative expenses include expenses incurred in the year for purposes of managing and administering the company, including expenses relating to administrative staff, management, office premises/expenses as well as amortisation/depreciation of assets used for administrative purposes.

Development costs

Research and development costs comprise salaries and other costs attributable to the Company's research and development activities. The Company expenses all research costs in the year when they are incurred. Development costs are recognised as intangible assets provided that the conditions stated under development projects are met. Other development costs are expensed.

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 are as follows:

Central production plant and production buildings	7-30 years
Administration building	30 years
Fixtures and fittings, tools and equipment	3-5 years
Minor equipment (cars, trucks, office equipment and IT equipment)	3-7 years
Strategic spare parts inventory	10 years

Land is not depreciated.

Income from investments in group entities and associates

The proportionate share of the results of tax is recognised in the income statement of elimination of intra-group profits/losses.

Financial income and 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. Also, realised and unrealised gains and losses on derivative financial instruments entered into to hedge revenue or production costs are included.

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 entity and its Danish group entities are taxed on a joint basis. The Danish income tax charge is allocated between profit-making and loss-making Danish entities in proportion to their taxable income (full allocation method).

Jointly taxed companies entitled to a tax refund are, as a minimum, reimbursed by the management company according to the current rates applicable to interest allowances, and jointly taxed companies having paid too little tax pay, as a maximum, a surcharge according to the current 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

Intangible assets

On initial recognition, emission rights granted and acquired are measured at cost. If a grant is received in relation to emission rights granted, the cost will be DKK 0 if the rights are granted free of charge.

Emission rights are expensed as actual CO2 emissions are made. If actual emissions exceed the CO2 rights granted and acquired, the fair value of any additional CO2 rights that the Company is obliged to settle is recognised as a liability. The amortisation base for emission rights is determined on the basis of the residual value of the rights, the value of which depends on whether the right is expected to be used or sold. The residual value of CO2 rights that are expected to be used is DKK 0.

Impairment tests are conducted of intangible assets 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.

Amortisation and impairment losses on intangible assets are recognised in the income statement as production costs, selling and marketing costs and administrative expenses, respectively.

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.

Financial statements for the period 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

Investments in group entities and associates

Investments in group entities and associates are measured, using the equity method, at the companies' proportionate share of such enterprises' equity plus goodwill and less intra-group profits. Associates with negative net asset values are measured at DKK 0 (nil), and any receivables from such associates are written down by the parent company's share of the negative net asset values. If the negative equity value exceeds the receivable, the balance is recognised under provisions to the extent the parent company has a legal or constructive obligation to cover a deficit in the associate.

Net revaluation of investments in associates is transferred to the reserve for net revaluation according to the equity method in equity to the extent that the carrying amount exceeds cost. On acquisition of associates, the purchase method is applied; see description under business combinations above.

Impairment of fixed assets

Intangible assets, property, plant and equipment and investments in subsidiaries and associates are subject to an annual test for indications of impairment other than the decrease in value reflected by depreciation or amortisation. Impairment tests are conducted in respect of individual assets or groups of assets generating separate cash flows when there is indications of impairment. 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. As for group of assets, impairment losses are first recognised in respect of goodwill and thereafter proportionately in respect of the other assets.

Inventories

Inventories comprise natural gas, coal and biomass and are measured at the lower of cost on the basis of the FIFO principle and net realisable value. The net realisable value of inventories is calculated as the expected sales amount less any production costs and costs necessary to make the sale.

Raw materials and consumables are measured at cost, comprising purchase price plus delivery costs.

Work in progress and finished goods are measured at manufacturing cost, which includes cost of raw materials, consumables and direct payroll costs plus indirect production overheads.

Spare parts are measured at cost, comprising purchase price plus delivery costs.

Receivables

Receivables are measured at amortised cost.

An impairment loss is recognised if there is objective indication that a receivable or a group of receivables is impaired. If there is objective indication that an individual receivable has been impaired, write-down is made on an individual basis.

Receivables with no objective indication of individual impairment are tested for objective indication of impairment on a portfolio basis. The portfolios are primarily composed on the basis of debtors' domicile and credit ratings in accordance with the Company's risk management policy. The objective indicators used for portfolios are determined based on historical loss experience.

Write-downs 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.

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

Dividends 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 taxable income for the year, adjusted for tax on the taxable income of prior years and for tax paid on account.

Deferred tax is measured using the balance sheet liability method on all temporary differences between the carrying amount and the tax value 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. Changes in deferred tax due to changes in the tax rate are recognised in the income statement.

Financial statements for the period 1 January - 31 December

Notes to the financial statements

1 **Accounting policies (continued)**

Liabilities

Financial liabilities are recognised at the date of borrowing at the net proceeds received less transaction costs paid. In subsequent periods, the 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 liability in respect of finance leases.

Other liabilities are measured at net realisable value.

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 in the survey of financial highlights have been calculated as follows:

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

Financial statements for the period 1 January - 31 December

Notes to the financial statements

2 Material uncertainties regarding recognition and measurement

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.

The recognition and measurement of provisions for expected future costs for dismantling and restoration of production plant, etc., are associated with material uncertainty, particularly from a time perspective. At 31 December 2015, DKK 83.1 thousand was provided for this purpose.

The deferred tax asset is assessed on an annual basis and recognised to the extent it is probable that, in the foreseeable future, future taxable income will correspond to the value of the tax asset. The estimate is based on the expected budgets and future taxable income of the current jointly taxed companies. At 31 December 2015, Management assessed that a tax asset of DKK 136,262 thousand can be realised in the foreseeable future.

3 Events after the balance sheet date

After the balace sheet date, Management has decided to restructure the Company to reflect the current level of operating activity. This includes a capital reduction to an expected level of DKK 10 million. However, this has not yet been carried out.

Reference is made in Management's review.

4 Discontinued operations

In 2015, Vattenfall entered into an agreement with Aalborg Kommune regarding sale, effective 1 January 2016, of the NJV power plant "Nordjyllandsværket", a central heat and power plant producing power as well as heat. The initial purchase price amounts to DKK 801 million including the book value of the demolition provision.

Vattenfall wants to dispose of this power plant owing to the Company's strategy to discontinue the use of CO2-generating fuel.

Nordjyllandsværket has been transferred to the buyer effective from 1 January 2016. The carrying amount of the transferred assets and liabilities has been written down to the estimated selling price at 31 December 2015. This has resulted in a write-down of DKK 260 million which has been recognised under write-down of production assets/loss on disposal. The discontinued operation is included in the financial statements for 2015 in the following key figures (DKK'000) (incl. write-down):

Key figures for the discontinued operations:

Revenue	424,596
Profit/Loss for the year	-43,081
Non-current assets	843,498

Financial statements for the period 1 January - 31 December

Notes to the financial statements

DKK'000	2015	2014
5 Revenue		
Business segmentation of revenue:		
Electricity	800,728	1,860,274
District heating	98,070	362,007
Fuel and residues	8,891	19,569
Other services	62,743	142,935
Financial instruments, currency adjustment, etc.	196,326	118,968
	1,166,758	2,503,753

6 Staff costs		
Wages/salaries	86,177	173,389
Pensions	14,801	17,991
Other social security costs	458	1,855
	101,436	193,235
Average number of full-time employees	177	306

According to section 98 (b), sub-section 3 of the Danish Financial Statements Act, remuneration to the Executive Board is not disclosed. No remuneration was paid to the Board of Directors (2014: DKK 0).

7 Other operating expenses

Other operating expenses include write-down on Nordjyllandsværket, totalling DKK 259,889 thousand.

DKK'000	2015	2014
8 Financial income		
Interest receivable, group entities	2	9
Other financial income	17,285	3,264
	17,287	3,273
9 Financial expenses		
Interest expenses, group entities	190	586
Other financial expenses	9,043	24,416
	9,233	25,002
10 Tax for the year		
Deferred tax adjustments in the year	77,738	9,123
Tax adjustments, prior years	-77,738	-31,544
Change in tax rate	0	-55,000
	0	-77,421

Financial statements for the period 1 January - 31 December

Notes to the financial statements

11 Intangible assets

DKK'000	Acquired intangible assets
Cost at 1 January 2015	41,077
Utilised emission allowances	-73,570
Purchase in the year	129,779
Sale in the year	-90,351
Cost at 31 December 2015	6,935
Impairment losses and amortisation at 1 January 2015	0
Impairment losses in the year	0
Impairment losses and amortisation at 31 December 2015	0
Carrying amount at 31 December 2015	6,935

12 Property, plant and equipment

DKK'000	Land and buildings	Plant and machinery	Other fixtures and fittings, tools and equipment	Property, plant and equipment in progress	Total
Cost at 1 January 2015	990,160	7,893,398	113,930	54,546	9,052,034
Additions in the year	0	6,245	3,547	12,413	22,205
Disposals on demerger and sale of other enterprise	-430,212	-1,983,676	-64,471	-6,800	-2,485,159
Transfer from other accounts	0	60,159	0	-60,159	0
Cost at 31 December 2015	559,948	5,976,126	53,006	0	6,589,080
Impairment losses and depreciation at 1 January 2015	683,218	6,053,370	52,822	0	6,789,410
Impairment losses in the year	0	259,889	0	0	259,889
Amortisation/depreciation in the year	16,560	102,657	3,575	0	122,792
Reversal of amortisation/depreciation and impairment of disposals	-211,986	-1,158,857	-14,560	0	-1,385,403
Impairment losses and depreciation at 31 December 2015	487,792	5,257,059	41,837	0	5,786,688
Carrying amount at 31 December 2015	72,156	719,067	11,169	0	802,392

Financial statements for the period 1 January - 31 December

Notes to the financial statements

13 Investments

DKK'000	Investments in group entities, net asset value	Investments in associates, net asset value	Total
Cost at 1 January 2015	1,000	710	1,710
Additions in the year	614,440	0	614,440
Disposals in the year	-615,440	0	-615,440
Cost at 31 December 2015	0	710	710
Value adjustments at 1 January 2015	0	290	290
Equity adjustments, investments	0	334	334
Value adjustments at 31 December 2015	0	624	624
Carrying amount at 31 December 2015	0	1,334	1,334

DKK'000	Legal form	Domicile	Interest	Equity	Profit/loss
Associates					
E-mineral	A/S	Hals, Denmark	50.00 %	2,668	668

On 1 January 2015, Vattenfall A/S transferred net assets of DKK 614,440 thousand related to the Funen power plant "Fynsværket" to Vattenfall Thermal Power 1 A/S. The transfer of the power plant is a result of the transferred activity to Fjernvarme Fyn A/S with change of control at 31 March 2015.

Further on 1 January 2015, Vattenfall A/S sold the assets of Odense Kraftvarmeværk, disposal of capital of DKK 500 thousand to Fjernvarme Fyn A/S with change of control at 31 March 2015.

14 Inventories

Inventories consist of raw materials and consumables of DKK 33,737 thousand (2014: DKK 49,908 thousand) and spare parts of DKK 23,746 thousand (2014: DKK 55,822 thousand).

15 Prepayments

Prepayments include accrual of expenses relating to subsequent financial years, including rent.

DKK'000	2015	2014
16 Other receivables		
Deposits	517	1,879
Derivative financial instruments	70,199	257,628
Other receivables	89,130	6,404
	159,846	265,911

17 Receivables

Included in receivables from group entities is a group cash-pool receivable of DKK 28,853 thousand (2014: DKK 387,705 thousand).

Financial statements for the period 1 January - 31 December

Notes to the financial statements

DKK'000	2015	2014
18 Share capital		
The share capital consists of the following:		
10,040,000 A- shares of DKK 100.00 each	1,004,000	1,004,000
	1,004,000	1,004,000

The Company's share capital has remained DKK 1,004,000 thousand over the past 5 years.

19 Deferred tax

Analyses of the deferred tax

DKK'000	2015	2014
Deferred tax asset	136,262	214,000
Deferred tax liabililty	0	0
	136,262	214,000

Besides the tax loss recognised in the statement of deferred tax, the Company has additional tax loss carryforwards at a carrying amount of DKK 344,832 thousand. As it is uncertain if these tax losses can be utilised within a foreseeable future, their carrying amount has not been recognised in the financial statements.

The deferred tax asset primarily consists of deferred tax related to timing differences regarding depreciation of property, plant and equipment. The deferred tax asset is DKK 136,262 thousand at 31 December, 2015.

The deferred tax is assessed on an annual basis and is recognised in so far it is considered probable that future taxable income will correspond to the value of the negative deferred tax. At 31 December 2015, Management assesses that a tax asset totalling DKK 136,262 thousand is realisable within a foreseeable future. The year's deferred tax adjustment totalled DKK 77,738 thousand and is recognised in the income statement under "Tax of the year".

The estimate is based on expectations as to the existing jointly taxed entities' budgets and future taxable income within a foreseeable future.

20 Provisions

Other provisions comprise provisions for demolition liabilities , totalling DKK 83,100 thousand, emission rights, totalling DKK 59,065 thousand and other provisions, totalling 31,504 thousand. All due within a year.

DKK'000	2015	2014
21 Other payables		
VAT and other indirect taxes	31,469	105,139
Wages/salaries, salary taxes, social security contributions, etc.	22,106	47,952
Other accrued expenses	81,678	109,968
	135,253	263,059

Financial statements for the period 1 January - 31 December

Notes to the financial statements

22 **Contractual obligations and contingencies, etc.**

Other contingent liabilities

DKK'000	2015	2014
Guarantee commitments	400	33,886
	400	33,886

The Company has provided a guarantee to the municipality of Aalborg on DKK 400 thousand.

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	2015	2014
Rent and lease liabilities	4,483	12,986

Rent and lease liabilities include a rent obligation totalling DKK 4,138 thousand. Furthermore, the Company has liabilities under operating leases for cars, totalling DKK 345 thousand.

23 **Related parties**

Vattenfall A/S' related parties comprise the following:

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'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

24 **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.