Vattenfall A/S

Jupitervej 6, 6000 Kolding

CVR no. 21 31 13 32

Annual report 2016

Approved at the Company's annual general meeting on 31 /5 2017

Chairman:

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Contents

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 2016.

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 2016 and of the results of the Company's operations for the financial year 1 January - 31 December 2016.

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 2017
Executive Board:

Jørgen Nielsen
CEO

Board of Directors:

Michael Simmelsgaard Chairman	Lars Peter Joelsson	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 2016, which comprise an income statement, balance sheet, statement of changes in equity, cash flow statement 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 2016 and of the results of the Company's operations for the financial year 1 January - 31 December 2016 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 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. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Management's responsibilities for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and 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 skepticism 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 conclusion is based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and contents of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

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

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 our procedures, 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 Statement Act. We did not identify any material misstatement of the Management's review.

Copenhagen, 31 May 2017
ERNST & YOUNG
Godkendt Revisionspartnerselskab
CVR no. 30 70 02 28

Torben Bender
State Authorised
Public Accountant

Karsten Bøgel
State Authorised
Public Accountant

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 Simmelsgaard, Chairman Lars Peter Joelsson Jørgen Nielsen
Executive Board	Jørgen Nielsen, CEO
Auditors	Ernst & Young Godkendt Revisionspartnerselskab Osvald Helmuths Vej 4, DK-2000 Frederiksberg, Denmark
Bankers	Nordea

Management's review

Financial highlights

DKK'000	2016	2015	2014	2013	2012
Key figures					
Revenue	386,643	1,166,758	2,503,753	4,451,374	4,062,990
Operation profit/loss	-6,779	-320,219	28,643	-41,513	-1,434,022
Net financials	1,739	8,054	-21,729	3,721	-328,819
Profit/loss for the year	149,132	-311,705	84,335	24,208	-1,967,566
Non-current assets	1,941	810,661	2,305,701	3,374,473	4,716,904
Current assets	719,935	680,357	1,497,719	3,435,145	1,473,688
Total Assets	721,876	1,491,018	3,803,420	6,809,618	6,190,592
Investments, plant and machinery	0	22,615	77,665	254,648	190,656
Equity	390,768	937,436	2,349,141	2,764,808	2,740,600
Average number of employees	20	177	306	515	545
Financial ratios					
Operating margin	-3,68 %	-27,4 %	1,1 %	-0,9 %	-35,3 %
Gross margin	11,6 %	-0,4 %	6,3 %	3,5 %	-0,8 %
Return on invested capital	-2,0 %	-12,1 %	0,5 %	-0.6 %	-16 %
Solvency ratio	54,2 %	62,9 %	61,8 %	40,6 %	44,3 %
Return on equity	39,5 %	19,0 %	3,3 %	0.9 %	-37,2 %

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.

Management's review

The annual report of Vattenfall A/S for 2016 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 the production of electricity and heat. Following a decision by the Group, the Company has sold the power stations and has during 2016 had the support of these sold units as its main activity. 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.

Vattenfall A/S business area on business-to-business power sales still remains in the Company

Market overview

Following the sale of the power plants, the Company is not any longer exposed to any market risk within the electricity nor heat market. The Company is still part in a dispute on the utilisation of pre-emptive rights regarding a heat transmission line and provides services to the new owner of the Nordjyllandsværket based on the agreed framework of a service level agreement.

The business-to-business sale contracts are hedged through the Parent Company Vattenfall AB and do not represent a market risk.

Unusual matters having affected the financial statements

Following the market development with decreased profitability of operating Combined Heat and Power plants, the Vattenfall Group decided to sell the Danish power plants, which where owned by Vattenfall A/S. The sales process has had a significant impact on the financial results of the Company in the recent years. In order to facilitate the sale, an agreement was made with the buyer of the plants to provide support during a period after closing of the deal.

The disposal 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, and therefore, this transmission line could not be disposed of. Vattenfall still owns the transmission line which is rented out to local stakeholders.

Development in financial activities and matters

The Company's income statement for 2016 shows a profit of DKK 149,132 thousand against a loss of DKK -311,705 thousand last year. The Company's balance sheet at 31 December 2016 shows equity of DKK 390,768 thousand.

Profit for the year compared with previously expressed expectations

The result for the year is impacted by activities linked to the finalisation of the sale of the Nordjyllandsværket power station made on 2 January 2016 and the subsequent support provided.

Knowledge resources

At 31 December 2016, Vattenfall A/S employs 20 people (2015: 129). The employees work at the Company's two offices in Copenhagen and Kolding, respectively.

Recognition and measurement uncertainties

Following the disposal of the power plants only limited exposure to future uncertainties exist. The Company has although made a provision for potential consequences of the sale of the heat transmission line SYD.

Management's review

Market risks

Given the sales process, the Company is not facing any exposure to market and price risk looking forward.

Events after the balance sheet date

The Easter High Court confirmed the verdict of Lyngby court on the principles of the settlement for the execution of the pre-emptive rights by Farum Fjernvarme concerning the heat transmission line Syd. As a consequence, Vattenfall expects the sale to become executed during 2017. No further financial consequences from this sale are expected for the 2017 accounts.

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.

Research and development activities

Following the disposal 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 section 99a of the Danish Financial Statements Act 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's ambitions are reflected in the goals for 2020 of the Vattenfall Group to reduce absolute CO_2 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. The completed sale of the coal-based power plants will reduce the CO_2 exposure of the Vattenfall Group and eliminate the CO_2 emissions by Vattenfall A/S.

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.

Management's review

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/2017/vattenfall_annual_and_sustainability_report_2016_eng.pdf

Safety is one of 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 chairman of the Board resigned during the year and was replaced by Vattenfall Denmark country manager, Ole Bigum Nielsen, who 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 leaders have been appointed during the financial year 2016.

Outlook

Given the completion of the last sales transaction, the Company expects only limited activities and costs in the years to come, since only a few staff function activities remain within Vattenfall A/S. Utilisation of the accumulated tax loss by other Danish Vattenfall companies will trigger a positive cash-flow during 2017. Operationally, a minor profit is anticipated in 2017 following the remaining business-to-business sale activities.

Financial statements for the period 1 January - 31 December

Income statement

Note	DKK'000	2016	2015
5	**Revenue**	386,643	1,166,758
6/7	Production costs	-341,786	-1,162,531
	Gross profit	44,857	4,227
7	Distribution costs	0	-6,819
7	Administrative expenses	-59,068	-57,951
	Ordinary operating profit	-14,211	-60,543
8	Other operating income	12,475	602
9	Other operating expenses	-5,043	-260,189
	Research and development costs	0	-89
	Operating profit/loss	-6,779	-320,219
	Income from investments in associates	0	460
10	Other financial income	4,552	17,287
11	Other financial expenses	-2,813	-9,233
	Profit before tax	-5,040	-311,705
12	Tax on profit/loss for the year	154,172	0
	Profit for the year	149,132	-311,705

Financial statements for the period 1 January - 31 December

Balance sheet

Note	DKK'000	2016	2015
	ASSETS		
	Non-current assets		
13	Acquired intangible assets	0	6,935
14	**Property, plant and equipment**		
	Land and buildings	0	72,156
	Plant and machinery	0	719,067
	Fixtures and fittings, tools and equipment	1,941	11,169
	Property, plant and equipment	1,941	802,392
	Investments		
15	Investments in associates, net asset value	0	1,334
		0	1,334
	Total non-current assets	1,941	810,661
16	**Inventories**		
	Inventories	0	57,483
	Current assets	0	57,483
	Receivables		
	Trade receivables	30,421	168,488
17	Receivables from group entities	604,258	119,377
18	Deferred tax asset	0	136,262
19	Other receivables	72,376	159,846
20	Prepayments	0	19,345
	Receivables	707,055	603,318
	Cash at bank and in hand	12,880	19,556
	Total current assets	719,935	680,357
	TOTAL ASSETS	721,876	1,491,018

Financial statements for the period 1 January - 31 December

Balance sheet

Note	DKK'000	2016	2015
	EQUITY AND LIABILITIES		
	Equity		
21	Share capital	10,000	1,004,000
	Retained earnings	380,768	-66,564
	Total equity	390,768	937,436
	Provisions		
22	Other provisions	7,500	173,669
	Total provisions	7,500	173,669
	Liabilities other than provisions		
	Current liabilities other than provisions		
23	Prepayments received from customers	21.547	0
	Derivative financial instruments	0	28,255
	Trade payables	4,691	42,345
	Payables to group entities	147,106	174,058
	Payables to associates	3	2
24	Other payables	150,261	135,253
		323,608	379,913
	Total liabilities other than provisions	323,608	379,913
	TOTAL EQUITY AND LIABILITIES	721,876	1,491,018

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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 2015	1,004,000	1,100,000	245,141	2,349,141
Proposed dividend for the year	0	-1,100,000	0	-1,100,000
Profit/loss for the year	0	0	-311,705	-311,705
Equity at 1 January 2016	1,004,000	0	-66,564	937,436
Dividend distributed	0	0	0	0
Capital reduction with 70 % pay out to shareholder	-994,000	0	298,200	-695,800
Proposed dividend for the year	0	0	0	0
Profit/loss for the year	0	0	149,132	149,132
Equity at 31 December 2016	10,000	0	380,768	390,768

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 2016 has been presented in accordance with the provisions of the Danish Financial Statements Act as regards large reporting class C enterprises.

Changes to presentation and disclosures only

Effective 1 January 2016, the Company has implemented act no. 738 of 1 June 2015 with amendments to the Danish Financial Statements Act. As the implementation of the amendment act has no impact in terms of value on the income statement or the balance sheet in the financial year, nor on the comparative figures, the financial statements have been prepared based on the 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).

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.

Financial statements for the period 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

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 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.

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.

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.

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.

Other operating income and operating expenses

Other operating income and operating expenses comprise items of a secondary nature relative to the Company's core activities, including gains or losses on the sale of non-current 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.

Realised and unrealised gains and losses on derivative-based financial instruments entered into to hedge production costs are included.

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 company management and administration, including expenses relating to administrative staff, Management, office premises and expenses as well as amortisation/depreciation of assets used for administrative purposes.

Financial statements for the period 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

Developments 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.

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:

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 after tax is recognised in the income statement of elimination of intra-group profits/losses.

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

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.

Financial statements for the period 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

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.

Investments

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 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.

Financial statements for the period 1 January – 31 December

Notes to the financial statements

1 Accounting policies (continued)

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.

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 (CO_2 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.

Financial statements for the period 1 January - 31 December

Notes to the financial statements

1 **Accounting policies (continued)**

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.

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	$\frac{\text{Operating profit x 100}}{\text{Revenue}}$
Gross margin ratio	$\frac{\text{Gross margin x 100}}{\text{Revenue}}$
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 **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 **Events after the balance sheet date**

The Easter High Court confirmed the verdict of Lyngby court on the principles of the settlement for the execution of the pre-emptive rights by Farum Fjernvarme concerning the heat transmission line Syd. As a consequence, Vattenfall expects the sale to be executed during 2017. No further financial consequences from this sale are expected for the 2017 accounts.

4 **Discontinuing operation**

Effective 1 January 2016, Vattenfall A/S has sold NJV power plant "Nordjyllandsværket", a central heat and power plant producing power as well as heat. The 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 CO_2-generating fuel.

The discontinued operation was included in the financial statements for 2015 in the following key figures (incl. write-down):

	DKK'000
Revenue	424,596
Profit/loss for the year	-43,081
Non-current assets at 31 December 2015	843,498

Further, Vattenfall A/S has disposed its holding of shares in E-mineral A/S to the new owners of the previous owned power plants - Nordjyllandsværket, Fynsværket and Amagerværket.

5 **Revenue**

The Company renders goods and services only in Denmark.

Revenue is distributed in the following segments:

DKK'000	2016	2015
Sale of electricity, etc.	215,379	800,728
Sale of district heating	0	98,070
Sale of fuel and waste products	0	8,891
Other services	28,847	62,743
Financial instruments, exchange adjustment of electricity options	142,417	196,326
Total revenue	386,643	1,166,758

6 **Production costs**

Unrealised capital gain of financial instruments and coal options is included in the item Production costs at DKK 11,776 thousand against DKK 70,199 thousand in 2015.

Financial statements for the period 1 January - 31 December

Notes to the financial statements

DKK'000	2016	2015
7 Staff costs		
Staff costs are recognised as follows:		
Wages and salaries	21,314	86,177
Pensions	1,620	14,801
Other social security costs	19	458
Total staff costs	22,953	101,436
Average number of full-time employees	20	177

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 (2015: DKK 0).

8 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.

9 Other operating expenses

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

DKK'000	2016	2015
10 Other financial income		
Interest income, exchange rate gain and similar income	2,790	17,285
Interest income, group entities	1,762	2
Total other financial income	4,552	17,287
11 Other financial expenses		
Interest expense, exchange rate loss and similar expenses	2,611	9,043
Interest expense, group entities	202	190
Total other financial expenses	2,813	9,233
12 Tax on the profit/loss for the year		
Utilisation of tax from joint taxation	239,608	0
Adjustment of deferred tax	-136,262	77,738
Adjustment regarding prior year	50,826	-77,738
	154,172	0

Financial statements for the period 1 January - 31 December

Notes to the financial statements

13 Intangible assets

DKK'000	Acquired intangible assets
Cost at 1 January 2016	6,935
Purchase in the year	50,617
Settled in the year	-57,552
Cost at 31 December 2016	0
Carrying amount at 31 December 2016	0

14 Property, plant and equipment

DKK'000	Land and buildings	Plant and machinery	Fixtures and fittings, tools and equipment	Total
Cost at 1 January 2016	559,948	5,976,126	53,006	6,589,080
Additions	0	7,500	0	7,500
Transferred	0	0	0	0
Disposals	-559,948	-5,983,626	-41,625	6,585,199
Cost at 31 December 2016	0	0	11,381	11,381
Impairment losses and depreciation at 1 January 2016	487,792	5,257,059	41,837	5,786,688
Depreciations	0	0	-924	-924
Write-downs	0	0	0	0
Reversed depreciations concerning disposals	-487,792	-5,257,059	-31,473	-5,776,324
Impairment losses and depreciation at 31 December 2016	0	0	9,440	9,440
Carrying amount at 31 December 2016	0	0	1,941	1,941

15 Investments in associates

	DKK'000
Investments	
Cost at 1 January 2016	710
Additions	0
Disposals	-710
Cost at 31 December 2016	0
Value adjustments	
Value adjustments at 1 January 2016	624
Value adjustments during the year	0
Disposals	-624
Value adjustments at 31 December 2016	0
Carrying amount at 31 December 2016	0

Financial statements for the period 1 January - 31 December

Notes to the financial statements

16 Inventories

DKK'000	2016	2015
Raw materials and consumables	0	33,737
Spare parts	0	23,746
Total inventories	0	57,483

17 Receivables from group entities

Included in receivables from group entities is a group cash-pool receivable of DKK 165,375 thousand (2015: DKK 28,853 thousand) and expected receivables from joint taxation of DKK 239,633 thousand.

18 Deferred tax asset

Analysis of deferred tax assets:

DKK'000	2016	2015
Deferred tax assets	0	-136,262
	0	-136,262

Deferred tax assets are assessed on an annual basis and are 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 2016, Management assesses that a tax asset totalling DKK 0 thousand is realisable within a foreseeable future. The year's deferred tax adjustment totalled DKK 136,262 thousand and is recognised in the income statement under "Tax of the year".

The Company has calculated tax assets of DKK 20,000 thousand, which primarily consist of deferred tax related to timing differences regarding depreciation of property, plant and equipment. As it is uncertain whether the tax assets can be utilised within a foreseeable future, the carrying amount has not been recognised in the financial statements.

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

19 Other receivables

DKK'000	2016	2015
Deposits	667	517
Derivative financial instruments	11,777	70,199
Other receivables	59,932	89,130
Total other receivables	72,376	159,846

20 Prepayments

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

Financial statements for the period 1 January - 31 December

Notes to the financial statements

21 Share capital

The share capital consists of the following:

DKK'000	2016	2015
100,000 A-shares of DKK 100 each	10,000	1,004,000
Total share capital	10,000	1,004,000

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

DKK'000	2016	2015	2014	2013	2012
Balance at 1 January	1,004,000	1,004,000	1,004,000	1,004,000	1,004,000
Cash capital increase					
Capital reduction to cover loss	-994,000	0	0	0	0
Balance at 31 December	10,000	1,004,000	1,004,000	1,004,000	1,004,000

22 Provisions

Other provisions comprise provisions totalling DKK 7,500 thousand. All due within a year.

23 Prepayments received from customers

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

24 Other payables

DKK'000	2016	2015
VAT and other indirect taxes	14,212	31,469
Wages/salaries, salary taxes, social security contributions, etc.	3,717	22,106
Other accrued expenses	132,332	81,678
Total other debt	150,261	135,253

25 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	2016	2015
Rent and lease liabilities	2,933	4,483

Rent and lease liabilities include a rent obligation totalling DKK 2,782 thousand. Furthermore, the Company has liabilities under operating leases for cars, totalling DKK 151 thousand.

Financial statements for the period 1 January - 31 December

Notes to the financial statements

26 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 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

27 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.

28 Proposed dividend recognised under equity

	2016	2015
Profit/loss for the year	149,132	-311,705
Amount available for distribution	149,132	-311,705
Proposed dividend	0	0
Retained earnings	149,132	-311,705
Retained earnings/accumulated loss	149,132	-311,705