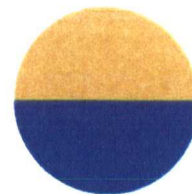


VATTENFALL



Vattenfall Vindkraft A/S

Jupitervej 6, 6000 Kolding

CVR no. 31 59 75 44

Annual Report 2018

Approved at the Company's annual general meeting on 21 June 2019

Chairman: Hans Werner Woltmann

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Statement by the Board of Directors and the Executive Board

The Board of Directors and the Executive Board have today discussed and approved the annual report of Vattenfall Vindkraft A/S for the financial year 1 January – 31 December 2018.

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 2018 and of the results of the Company's operations for the financial year 1 January – 31 December 2018.

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, 21 June 2019

Executive Board:

Michael Thorndahl
Simmelsgaard
CEO

Board of Directors:

Gunnar Groebler
Chairman

Robert Zurawski

Hans Werner Woltmann

Michael Thorndahl
Simmelsgaard
CEO

Independent auditors' report

To the shareholder of Vattenfall Vindkraft A/S

Opinion

We have audited the financial statements of Vattenfall Vindkraft A/S for the financial year 1 January – 31 December 2018, which comprise an income statement, balance sheet, statement of changes in equity and notes, including accounting policies. The financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the financial position of the Company at 31 December 2018 and of the results of the Company's operations for the financial year 1 January – 31 December 2018 in accordance with the Danish Financial Statements Act.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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

Management's responsibilities for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance 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, 21 June 2019

ERNST & YOUNG

Godkendt Revisionspartnerselskab

CVR no. 30 70 02 28



Torben Bender
State Authorised
Public Accountant
mne21332



Karsten Bøgel
State Authorised
Public Accountant
mne27849

Management's review

Financial highlights

DKK'000	2018	2017	2016	2015	2014
Key figures					
Revenue	408,289	500,951	360,815	245,177	349,520
Gross profit	224,112	239,718	188,260	-84,024	89,719
Operating profit/loss	60,590	-15,340	-96,201	-77,860	42,524
Net financials	-9,115	-6,414	-8,634	-32,525	22,995
Profit/loss for the year	202,428	-18,946	-67,180	-108,847	57,640
Financial ratios					
Equity	2,451,254	2,243,069	1,760,881	1,833,526	1,971,615
Total Assets	5,373,825	2,644,402	2,059,354	3,049,702	2,304,432
Investments in property, plant and equipment	53,150	87,434	28,508	467,661	195,832
Average number of employees	237	209	174	64	111
Gross margin	54.9 %	47.9 %	52.2 %	-34.3 %	25.7 %
Operating Margin (EBIT-Margin)	14.8 %	-3.1 %	-26.7 %	-31.8 %	12.2 %
Return on assets	1.5 %	-0.7 %	-7.3 %	-2.9 %	1.9 %
Solvency ratio	45.6 %	84.8 %	85.5 %	60.1 %	85.6 %
Return on equity	8.6 %	-0.9 %	-1.9 %	-5.7 %	3.0 %

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

The Company has in the financial year 2017 merged with Vattenfall Vindkraft Hagesholm A/S, Vattenfall Vindkraft Klim Holding A/S and Vattenfall Renewables Wind DK A/S. Comparative figures have been adjusted for 2016. It has not been possible to adjust comparative figures in the 5 years key-figures in the financial highlight reliably, and the years 2015 and 2014 have not been changed.

The presentation of the income statement, the financial statement is reported after same accounting policies as last year.

Business review

Vattenfall Vindkraft A/S manages the part of the Vattenfall Group's activities in Denmark that relate to the production of renewable energy based on wind. Today, Vattenfall Vindkraft A/S is one of the largest owner and operator of onshore wind turbines in Denmark and considering the planned offshore projects, Vattenfall Vindkraft A/S will become the absolute largest owner and operator in Denmark.

The Vattenfall Group is one of the largest investors in the production of renewable energy in Northern Europe.

Operations

The Company's core operation is to run and develop wind farms and sell electricity. The Company is also the service company for all of its subsidiaries and the Company's staff is further supporting other Vattenfall assets and projects in Europe.

Unusual matters having affected the financial statements

There has been no unusual matters that would have affected the financial statement.

Management's review

Development in financial activities and matters

The Company's income statement for 2018 shows a profit of DKK 202,428 thousand against a loss of DKK 18,946 thousand last year. The Company's balance sheet at 31 December 2018 showed equity of DKK 2,451,254 thousand.

Profit for the year compared with previously expressed expectations

The operational result for 2018 is significantly better than 2017, which is primarily driven by an improvement in electricity prices, which increased in 2018 compared to 2017. The result is also effected by an error at the transformerstation on HR1 which have been out of production since October 22 2018. The financial effect of the shut down is missing revenue which in 2017 for the same period was around DKK 24 million. Another large impact of the result is the reversal of earlier years impairment of DKK 140 million.

Market risks

The Company is exposed to market prices as it is selling electricity on the spot market.

Research and development activities

Vattenfall Vindkraft A/S participates in the joint research and development activities of the Vattenfall Group by participating in the programmes that are relevant to onshore and offshore wind turbines in the form of optimisation projects and several other measures.

Knowledge resources

At 31 December 2018, Vattenfall Vindkraft A/S had 261 employees who works at the offices in Esbjerg, Aalborg and Kolding. The average for the whole year was 237 employees.

Vattenfall Vindkraft A/S makes an effort to prevent industrial accidents. The safety organisations at the individual locations ensure on a daily basis that the safety rules are complied with. Again in 2018, Vattenfall Vindkraft A/S has had primary focus on personal injuries and the working environment. The organisation makes a determined effort to integrate environment and working environment in the project development.

Statutory CSR report

Vattenfall Vindkraft A/S refers to the Vattenfall Group policies in the CSR area in compliance with section 99a (7) 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.

Management's review

Corporate social responsibility (CSR)

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

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

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

https://group.vattenfall.com/siteassets/corporate/corporate_compend/investors/annual_reports/2019/vattenfall_annual_and_sustainability_report_2018_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 Vindkraft 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 within 3 years. At present, the under-represented gender accounts for 0% of the three board members appointed by the general meeting of shareholders. The Board has not since previous year changed, hence the goal has not been achieved. This is partly due to only a small amount of female managers in Vattenfall Vindkraft A/S. 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 Vindkraft 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 2018 Vattenfall Group appointed their first female site manager, which is a step in the group policy. Vattenfall expects this progress to continue over the coming years.

Impact on the external environment

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

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

Following the purpose statement strategic objectives have been defined as

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

Management's review

Recognition and measurement uncertainties

Recognition and measurement of provisions for expected future costs for dismantling and restoring production facilities, etc. are subject to uncertainties in particular as regards the time frame. The provision is based on the Management's best estimate.

Impairment uncertainty

Impairment are calculated every year with forecast both on costs and sales. When forecasting sales there is an uncertainty with both the volume produced and the spot prices. It is not unusually to that production variates to up to 15% from year to year. The spot market has also shown rather large fluctuations over the last few years.

Events after the balance sheet date

No events materially affecting the Company's financial position have occurred subsequent to the financial year-end.

Outlook

The spot prices have been decreased in the first 5 months of 2019. If this continues, it will lead to an decreased revenue in Vattenfall Vindkraft A/S in 2019 and have a directly negatively effect on the EBIT. Therefore, we expect an EBIT at a lower level than 2018 directly caused of the decreasing spot prices. Revenues from the wind business is expected to decrease around 10-20% from 2018, but this forecast is made with the same MW as 2018, as this is highly unsecure, this revenue forecast is also highly unsecure. We expect the investments to be at the same high level in 2019 due to future funding of several offshore projects in the subsidiaries.

Financial statements for the period 1 January – 31 December

Income statement

Note	DKK'000	2018	2017
3	Revenue	408,289	500,951
	Changes in inventories	-11,545	-11,361
	Work performed for own account and listed as assets	27,447	16,112
	Other operating income	0	6,373
	Cost of sales	-56,121	-140,917
	Other external costs	-143,958	-131,440
	Gross margin	224,112	239,718
4	Staff costs	-195,238	-168,114
6,7	Amortisation and depreciations	31,716	-86,944
	Operating profit/loss	60,590	-15,340
	Income from investments in group entities	102,545	13,914
	Other financial income	0	102
	Financial expenses from group entities	-3,302	-1,373
	Other financial expenses	-5,813	-5,143
	Profit before tax	154,020	-7,840
5	Tax on profit/loss for the year	48,408	-11,106
	Profit for the year	202,428	-18,946

Financial statements for the period 1 January – 31 December

Balance sheet

Note	DKK' 000	2018	2017
	ASSETS		
	Fixed assets		
6	Intangible assets		
	Acquired intangible assets	31,024	32,914
		<u>31,024</u>	<u>32,914</u>
7	Property, plant and equipment		
	Land and buildings	32,184	54,069
	Plant and machinery	476,818	402,110
	Fixtures and fittings, tools and equipment	2,490	3,198
	Property, plant and equipment under construction	54,279	20,696
		<u>565,771</u>	<u>480,073</u>
8	Investments		
	Investments in group entities	4,065,742	1,665,656
		<u>4,065,742</u>	<u>1,665,656</u>
	Total fixed assets	<u>4,662,537</u>	<u>2,178,643</u>
	Non fixed assets		
	Inventories		
	Finished goods	27,925	30,268
		<u>27,925</u>	<u>30,268</u>
	Receivables		
	Trade receivables	1,324	2,535
9	Receivables from group entities	375,770	183,381
	Other receivables	3,764	660
	Corporation tax receivables	12,079	0
10	Deferred tax	280,814	244,498
11	Prepayments	5,562	367
	Receivables	<u>679,313</u>	<u>431,441</u>
	Cash at bank and in hand	<u>4,050</u>	<u>4,050</u>
	Total non fixed assets	<u>711,288</u>	<u>465,759</u>
	TOTAL ASSETS	<u>5,373,825</u>	<u>2,644,402</u>

Financial statements for the period 1 January – 31 December

Balance sheet

Note	DKK'000	2018	2017
	EQUITY AND LIABILITIES		
	Equity		
	Share capital	150,000	150,000
	Restricted equity	6,890	1,134
	Retained earnings	2,294,364	2,091,935
		<u>2,451,254</u>	<u>2,243,069</u>
12	Provisions		
	Other provisions	270,447	235,591
		<u>270,447</u>	<u>235,591</u>
	Liabilities other than provisions		
13	Non-current liabilities		
	Payable to group entities	2,500,000	0
	Non-current liabilities	<u>2,500,000</u>	<u>0</u>
	Liabilities other than provisions		
	Current liabilities		
	Trade payables	37,772	20,743
9	Payables to group entities	66,649	73,915
	Payables to associates	0	13,390
	Other payables	47,703	57,694
	Total current liabilities	<u>152,124</u>	<u>165,742</u>
	Total liabilities other than provisions	<u>2,652,124</u>	<u>165,742</u>
	TOTAL EQUITY AND LIABILITIES	<u>5,373,825</u>	<u>2,644,402</u>

- 1 Accounting policies
- 14 Joint operations
- 15 Contractual obligations and contingencies, etc.
- 16 Related parties
- 17 Fee to the auditors appointed by the Company in general meeting
- 18 Proposed dividend recognised under equity

Financial statements for the period 1 January – 31 December

Statement of changes in equity

DKK'000	Share capital	Restricted equity	Retained earnings	Total
Equity at 1 January 2018	150,000	1,134	2,091,935	2,243,069
Other value adjustment of equity	0	5,756	0	5,756
Group contribution	0	0	0	0
Transferred	0	0	0	0
Profit/loss for the year	0	0	202,428	202,428
Equity at 31 December 2018	<u>150,000</u>	<u>6,890</u>	<u>2,294,364</u>	<u>2,451,254</u>

The share capital comprises 150,000 shares of nominal value of DKK 1,000 each. All shares rank equally.

No changes have been made to the share capital for the past 5 years.

Financial statements for the period 1 January – 31 December

Notes to the financial statements

1 Accounting policies

The annual report of Vattenfall Vindkraft A/S for 2018 has been presented in accordance with the provisions of the Danish Financial Statements Act as regards large reporting class C enterprises.

The presentation of the income statement, the financial statement is reported after same accounting policies as last year.

Omission of a cash flow statement

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

Consolidated financial statements

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

Basis of recognition and measurement

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

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

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

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

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

Reporting currency

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

Foreign currency translation

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

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.

Financial statements for the period 1 January – 31 December

Notes to the financial statements

1 Accounting policies (continued)

Intra-group business combinations

The pooling-of-interest method is applied to intra-group acquisitions and sales of investments in subsidiaries. This implies that investments are considered having been acquired, respectively sold, at the first day of the financial year and that any differences between the acquisition cost, respectively the selling price, and the net asset value of the investments are taken directly to equity at the beginning of the year. Comparative figures are restated accordingly.

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.

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.

Financial statements for the period 1 January – 31 December

Notes to the financial statements

5 Accounting policies (continued)

Income statement

Revenue

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

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

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

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

Cost of sales

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

Other operating income

Other operating income comprises items secondary to the entities' activities, including gains on disposal of intangible assets and items of property, plant and equipment.

Other external expenses

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

Staff costs

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

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:

Buildings	15-25 years
Plant and machinery	10-25 years
Fixtures and fittings, tools and equipment	5 years
Intangible assets	10-30 years

The basis of depreciation is based on the residual value of the asset and is reduced by impairment losses, if any.

The residual value is determined at the time of acquisition. Where the residual value exceeds the carrying amount of the sub-components, no further depreciation charges are recognised. The depreciation period and the residual value are reassessed every year.

Financial statements for the period 1 January – 31 December

Notes to the financial statements

1 Accounting policies (continued)

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, surcharges and refunds under the tax prepayment scheme as well as amortization of future costs for dismantling and restoration of production plant etc.

Income from investments in group entities and associates

The proportionate share of the profit/loss after tax of the individual subsidiaries is recognised in the income statement after full elimination of intra-group profits/losses.

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.

Balance sheet

Intangible assets

User rights are measured at cost less accumulated amortisation and impairment losses. The carrying amount is written down to the recoverable amount if this is lower. User rights are amortised over the term of the rights.

Amortisation and impairment losses on intangible assets are recognised in the income statement.

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 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.

The cost of self-constructed assets comprises direct and indirect costs of materials, components, sub-suppliers and wages.

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.

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)

Previously recognised impairment losses are reversed when the reason for recognition no longer exists. Impairment losses on goodwill are not reversed.

Investments in group entities

On initial recognition, equity investments in group entities are measured at cost.

Investments in group entities are measured, using the equity method, at the companies' proportionate share of such enterprises' equity plus goodwill and less intra-group profits. Investment in enterprises 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 enterprise.

Equity investments in subsidiaries are measured at net asset value and are subject to impairment test requirements if there is any indication of impairment.

Net revaluations of investments in subsidiaries are taken to the net revaluation reserve according to the equity method to the extent the carrying amount exceeds the costs.

Impairment of non-current assets

The carrying amount of non-current assets is tested annually for indications of impairment.

Impairment tests are conducted on assets or groups of assets when there is evidence of impairment. Assets are written down to the lower of the carrying amount and the recoverable amount.

The recoverable amount is the higher of the net selling price of an asset and its value in use. The value in use is calculated as the net present value of the expected net cash flows from the use of the asset or the group of assets and the expected net cash flows from the disposal of the asset or the group of assets after the end of the useful life.

Previously recognized impairment losses are reversed when the reason for recognition no longer exists. Impairment losses on goodwill are not reversed.

Inventories

Inventories are measured at cost in accordance with the FIFO method. Where the net realisable value is lower than cost, inventories are written down to this lower value.

Goods for resale and raw materials and consumables are measured at cost, comprising purchase price plus delivery costs.

The cost of finished goods and work in progress includes the cost of raw materials, consumables, direct labour and production overheads. Indirect production overheads include the indirect cost of material and labour as well as maintenance and depreciation of production machinery, buildings and equipment and expenses relating to plant administration and management.

The net realisable value of inventories is calculated as the sales amount less costs of completion and costs necessary to make the sale and is determined taking into account marketability, obsolescence and development in expected selling price.

Receivables

Receivables are measured at amortised cost, which is usually equivalent to the nominal value. Impairment is made of the value for anticipated bad debt losses.

Accrued income, etc. is recognised under other receivables. Other receivables is measured at amortised costs, which is in general equal to the nominal value.

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.

Cash and cash equivalents

Given the nature of the Group's cash pool arrangement, cash pool balances are not considered cash, but are recognised under "Receivables from group entities".

Provisions

Provisions comprise expected future costs for dismantling and restoration of production plant, etc. as well as contracts entered into regarding future delivery of goods.

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

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

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

Corporation tax

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

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

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

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

Financial statements for the period 1 January – 31 December

Notes to the financial statements

2 Recognition and measurement uncertainties

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

3 Revenue

The Company provides electricity production to the Danish market. In addition, the Company renders goods and services to existing Vattenfall windpower projects in other European countries. Revenue is distributed in the following segments:

DKK'000	2018	2017
Sale of electricity, etc.	189,921	226,880
Other services	218,368	274,071
Total revenue	408,289	500,951

The geographic segments of "other services" are Denmark 46% and Rest-of-Europe 54% in 2018. The comparable figures for 2017 were respectively 65% and 35%.

4 Staff costs

Staff costs are recognised as follows:

DKK'000	2018	2017
Wages and salaries	167,905	145,932
Pensions	16,564	14,468
Other social security costs	1,964	1,400
Other personal expenses	8,805	6,314
Total Staff costs	195,238	168,114
Average number of full-time employees	237	209

According to section 98b(3) of the Danish Financial Statements Act, remuneration of the Executive Board is not disclosed. No remuneration was paid to the Board of Directors (2017: DKK 0 thousand).

5 Tax on the profit/loss for the year

DKK'000	2018	2017
Current tax for the year	12,079	-13,390
Adjustment of deferred tax	36,316	0
Adjustment regarding prior year	12	2,284
Total Tax on the profit/loss for the year	48,408	-11,106

Financial statements for the period 1 January – 31 December

Notes to the financial statements

6 Intangible assets

	Acquired intangible assets
DKK'000	
Cost at 1 January 2018	39,326
Additions	0
Cost at 31 December 2018	39,326
Impairment losses and depreciation at 1 January 2018	6,412
Depreciations	1,890
Impairment losses and depreciation at 31 December 2018	8,302
Carrying amount at 31 December 2018	31,024

7 Property, plant and equipment

	Land and buildings	Plant and machinery	Other plant and equipment	Property, plant and equipment under construction	Total
DKK'000					
Cost at 1 January 2018	66,778	1,728,279	8,234	20,696	1,823,987
Additions	0	30,882	267	22,001	53,150
Disposals	-2,232	-17,920	0	-138	-20,290
Transferred*	-19,826	8,106	0	11,720	0
Cost at 31 December 2018	44,720	1,749,346	8,501	54,279	1,856,846
Impairment losses and depreciation at 1 January 2018	12,709	1,326,168	5,036	0	1,343,913
Depreciation	1,139	83,278	975	0	85,392
Reversed depreciation concerning disposals	-1,312	-17,920	0	0	-19,232
Impairments	0	21,257			21,257
Reversed Impairments	0	-140,255	0	0	-140,255
Impairment losses and depreciation at 31 December 2018	12,536	1,272,528	6,011	54,279	1,291,075
Carrying amount at 31 December 2018	32,184	474,818	2,490	54,279	565,771

* Buildings acquired for future projects has been reclassified from Land and Buildings to Property, plant and equipment under construction.

Impairment test

Due to the development in the Company's settlement prices, Management has assessed that there are indications of an increase in the expected future cash flows from the wind farms.

Consequently, Management has prepared an impairment test and thereby calculated the recoverable amount of the Company's property, plant and equipment at 31 December 2018.

The calculation of the recoverable amount is based on the value in use of the plant, which is determined based on expected future net cash flows on the basis of budgets from the Company's business plan for year 2019-2023 as well as forecast for subsequent years. The calculation of the value in use is based on Management's assessment of the discount factor, inflation as well as the useful life of the plant.

Financial statements for the period 1 January – 31 December

Notes to the financial statements

The recoverable amount of the plants has been compared to the recognised value of the plants. This has given rise to reverse earlier impairment of total DKK 140,255 thousands, and an impairment on DKK 21,257 thousands, as the impairment tests are conducted at park-level. Including prior-year impairment losses and this year's reversal and impairment, impairment losses at 31 December 2018 total DKK 45,402 thousands remains.

8 Investments

DKK'000	Investment in group entities
Cost at 1 January 2018	2,209,600
Additions	2,450,000
Cost at 31 December 2018	4,659,600
Value at 1 January 2018	-543,944
Dividend received	-158,216
Profit/loss for the year	102,545
Equity adjustments	5,757
Value adjustment at 31 December 2018	-593,858
Carrying amount at 31 December 2018	4,065,742

Name and domicile	Interest	Result DKK'000	Equity DKK'000
Group Entities			
Vattenfall Vindkraft Bajlum P/S, Skive	87,49 %	7,676	115,046
Vattenfall Vindkraft Nørrekær Enge A/S, Esbjerg	100,00 %	60,126	144,619
<i>Vattenfall Vindkraft Nørrekær Enge I P/S, Esbjerg</i>	<i>98,58 %</i>	<i>78,086</i>	<i>144,597</i>
Vattenfall Vindkraft Ejlsing P/S, Esbjerg	96,83 %	16,863	37,257
Vattenfall Vindkraft Klim P/S, Esbjerg	98,10 %	45,781	613,657
Vattenfall Vindkraft Horns Rev 3 P/S, Esbjerg	100,00 %	-21,989	2,985,115
Vattenfall Vindkraft Komplementar ApS, Esbjerg	100,00 %	-1,1	35,2
Vattenfall Vindkraft Kriegers Flak Holding A/S, Esbjerg	100,00 %	-2,268	97,862
<i>Vattenfall Vindkraft Kriegers Flak P/S, Esbjerg</i>	<i>100,00 %</i>	<i>-2,897</i>	<i>97,142</i>
Vattenfall Vindkraft Vesterhav Nord Holding A/S, Esbjerg	100,00 %	-587	49,595
<i>Vattenfall Vindkraft Vesterhav Nord P/S, Esbjerg</i>	<i>100,00 %</i>	<i>-737</i>	<i>49,368</i>
Vattenfall Vindkraft Vesterhav Syd Holding A/S, Esbjerg	100,00 %	-808	49,495
<i>Vattenfall Vindkraft Vesterhav Syd P/S, Esbjerg</i>	<i>100,00 %</i>	<i>-1,018</i>	<i>49,243</i>

The above numbers are based on the individual companies' financial statements for 2018.

Impairment test

Based on expected selling prices of produced energy in the subsidiaries, Management has assessed that there are no indications of a change in the expected future cash flows from the subsidiaries, which may lead to the need for impairment write-down of the investment in the subsidiaries.

Consequently, Management has prepared an impairment test and thereby calculated the recoverable amount of the investment in the subsidiaries at 31 December 2018.

Financial statements for the period 1 January – 31 December

Notes to the financial statements

The calculation of the recoverable amount is based on the equity value of the subsidiaries, which is determined based on expected future net cash flows, on the basis of budgets from the subsidiaries' business plans for the years 2019-2023 as well as forecast for subsequent years. The net cash position at 31 December 2018 in the subsidiaries has been added to arrive at the equity value. The calculation of the equity value is based on Management's assessment of the discount factor, inflation, the useful life of the windfarms in the subsidiaries as well as the recognised tax effect of the expected future cash flows from the subsidiary companies, which are transparent for tax purposes.

The recoverable amount of the subsidiaries has been compared to the recognised value of the subsidiaries. This has not given rise to any impairment in 2018.

9 Receivables/payables from group entities

Included in receivables from group entities is a group cash-pool receivable of DKK 168,523 thousand (2017: cash-pool receivable of DKK 13,645 thousand).

10 Deferred tax

DKK'000	2018	2017
Deferred tax is related to:		
Property, plant and equipment	18,368	41,862
Intangible assets	205,844	169,888
Provisions	50,965	32,748
Prepayments	4,121	0
	1,516	0
	<u>280,814</u>	<u>244,498</u>
Deferred tax is recognized in the balance sheet as follows:		
Deferred tax asset	280,814	244,498
Deferred tax liability	0	0
	<u>280,814</u>	<u>244,498</u>

11 Prepayments

Prepayments include accrual of expenses relating to subsequent financial years, including rent, insurance policies, subscriptions and interests.

12 Provisions

Provisions comprise expected future costs for dismantling and restoring the production sites.

Based on Management's expectations of the liabilities' date of payment, the liabilities are recognized as long-term liabilities.

13 Non-current liabilities

All non-current liabilities are due within 1-5 years

14 Joint operations

Investments in joint operations are consolidated on a pro rata basis in the consolidated financial statements, implying that the items are recognised in proportion to the Company's share of the joint operations' profit/loss and equity:

Horns Rev 1 I/S Ocean Wind farm, Esbjerg, Denmark, 60 % ownership interest.

Through pro rata consolidation Vattenfall Vindkraft A/S recognises:

Revenue: (60% of DKK 162,391 thousand) DKK 97,434 thousand.

Profit/loss for the year (excl. depreciations): (60% of DKK 87,374 thousand) DKK 52,008 thousand.

All non-current assets and liabilities are fully integrated in the financial accounts on owner-level.

Financial statements for the period 1 January – 31 December

Notes to the financial statements

15 Contractual obligations and contingencies, etc.

Together with the other participants, the Company is jointly liable for Horns Rev II/S Ocean Wind farm's liabilities.

Vattenfall Vindkraft A/S is part of multiple lawsuits, which independently and together are estimated as immaterial for the Company's financial position.

After the segregation of the wind segment in 2008 from Vattenfall A/S to Vattenfall Vindkraft A/S, Vattenfall Vindkraft A/S is jointly liable with Vattenfall A/S for the total liabilities, which existed as of 1 January 2008.

The Company is jointly taxed with other Danish group entities and is jointly liable with other jointly taxed group entities for payment of income taxes as well as withholding taxes on interest, royalties and dividends falling due for payment on or after 1 July 2012.

Other financial liabilities

Liabilities under operating leases concern cars totalling DKK 2,019 thousand as of 31 December 2018 (DKK 2,424 thousand in 2017).

Rent obligations relating to the contract of the renting of land, which is non-terminable for 12 years, represents DKK 13,176 thousand (DKK 22,539 thousand in 2017).

Rent obligations relating to the contract of the renting of buildings represents DKK 957 thousand (DKK 2,582 thousand in 2017).

In addition, through group entities, Vattenfall Vindkraft A/S has long-term (20-30 years) tenancy agreements with plot owners.

The company is general partner in Vattenfall Vindkraft Bajlum P/S and Vattenfall Vindkraft Nørrekær Enge P/S and are liable unlimited and directly for the partnership companies obligation.

16 Related parties

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

Parties exercising control

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

Information about consolidated financial statements

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

Ownership

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

Name	Domicile
Vattenfall AB	16287 Stockholm, Sweden

17 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.

Financial statements for the period 1 January – 31 December

Notes to the financial statements

18 Distribution of profit/loss

DKK'000	2018	2017
Profit/loss for the year	202,428	-18,946
Amount available for distribution	202,428	-18,946
Proposed dividend	0	0
Retained earnings	202,428	-18,946
Retained earnings/accumulated loss	202,428	-18,946