

Interim report

January-June 2016

(Reporting of figures on this page pertains to Total Vattenfall, including the lignite operations)

April–June 2016

- Net sales of SEK 34,482 million (36,115)
- Underlying operating profit^{1,2} of SEK 2,907 million (2,966)
- Operating profit² of SEK -30,615 million (-38,045)
- Profit after tax of SEK -28,644 million (-28,812) for the period
- Electricity generation of 39.9 TWh (39.7)

January–June 2016

- Net sales of SEK 80,411 million (81,492)
- Underlying operating profit¹ of SEK 11,044 million (10,703)
- Operating profit of SEK -20,604 million (-29,658)
- Profit after tax of SEK -22,042 million (-23,825) for the period
- Electricity generation of 88.7 TWh (86.1)

1) Underlying operating profit is defined as operating profit excluding items affecting comparability. For a specification of items affecting comparability, see page 11.
2) See Definitions and calculations of key ratios for the definition of the Alternative Performance Measures.

The financial performance that is reported and commented on in this interim report pertains to Vattenfall's continuing operations, unless indicated otherwise. In view of the divestment of Vattenfall's lignite operations, these are classified and reported as a discontinued operation, see Note 4 on page 37. Text shadowed in light blue pertains to the divestment of Vattenfall's lignite operations.

Vattenfall discloses the information provided in this interim report pursuant to the Swedish Securities Market Act.

Rounding differences may occur in this document.

CEO's comments

"The first half of the year was characterised by stability in Vattenfall's operations and a number of important events in our external operating environment that affect the company.

These include a cross-bloc energy agreement in Sweden that addresses several of the problems we have experienced, including excessively high taxes in relation to the current low electricity prices. The nuclear capacity tax, which has been an impediment to efforts to extend the useful life of our reactors, will now be phased out. In addition, Vattenfall's excessively high property tax for hydro power properties, which is restraining development of Sweden's absolute most valuable source of electricity generation, will be reduced significantly. This will provide well-needed scope for the transition – in an economically defensible manner – to the goal of the accord, namely, an entirely renewable electricity system by 2040. Naturally, a great deal of work remains to successfully reach this goal, but we now have a base that a majority of the political spectrum supports. Vattenfall has decided to invest in lifetime extensions through independent core cooling for the reactors at Forsmark, we are now reviewing the prospects for Ringhals reactors 3 and 4.

The Swedish state's confirmation that it stands behind Vattenfall's sale of the lignite operations in Germany entails that we can now proceed to close the deal. Transfer of the operations is scheduled to take place during the autumn, and we have included a report on key aspects of the deal later in this report. Even though Vattenfall will significantly reduce the number of its employees in Germany through the sale of the lignite operations, Germany will continue to be one of Vattenfall's most important markets, with operations in all core business areas. The state's confirmation also entails that we have clarified Vattenfall's future focus on delivering what customers want in the form of electricity and heat based on a larger share of renewable production. As part of this we will be investing more than SEK 3 billion in a wind farm off the coast of Aberdeen in the UK. The wind farm will be specially designed to test new technologies associated with offshore wind power, which is a key part of the UK's investment in the transformation of its energy system.

Another positive development involves the German nuclear power commission's proposal on the delegation of responsibility for the decommissioning of nuclear power in Germany. Granted, negotiations remain with respect to the final financing solution, but the solution of having the state take over the interim and long-term storage of radioactive waste is an effective way of handling key aspects of the future decommissioning process.

While we can thus note a number of positive developments, the business situation remains tough, with low electricity prices and essentially unchanged market volumes. The entire energy sector is under price pressure. Against this background, it nevertheless is gratifying to report an underlying operating profit of SEK 11.0 billion for Vattenfall in total for the first half of 2016. This is an increase of SEK 0.3 billion compared with the same period a year ago.

The total negative effect of the sale of the lignite operations amounts to SEK 21.5 billion. However, this would have been higher if Vattenfall had kept and continued running the operations, which would have resulted in higher impairment losses already in this interim report. In addition, as a result of our regular impairment testing, we have recognised additional impairment losses for the Moorburg coal-fired power plant, German hydro power assets, and a number of other assets. Total impairment losses for the half year thus amount to SEK 30.0 billion. Overall this has led to Vattenfall reporting a negative result after tax of SEK -22.0 billion.

We are continuing our work to transform Vattenfall into a significant player in the new energy landscape in which the focus is on the customer. Hard work combined with growth in several areas and continued efficiency improvements will lead us in the right direction."



Magnus Hall
President and CEO

Sale of lignite operations

(Note 4, Discontinued operations on page 37 describing the financial consequences of the Transaction has been reviewed by Vattenfall's auditor. The text on pages 3-4 describing the sale of the lignite operations has not been reviewed.)

Introduction

The sale of Vattenfall's German lignite mining and generation business (the "Transaction") was structured as a share sale in two legal entities, Vattenfall Europe Generation AG ("VE-G") and Vattenfall Europe Mining AG ("VE-M") (together the "Company").

Closing mechanism and hedges

The sale has been structured as a so-called locked box transaction with a starting point on 1 January 2016, at which time the financial risk for the Company was transferred to the buyer, including the value of historical hedges attributable to the Company's operations. For technical reasons, Vattenfall retained these hedges, and instead, the deal includes a mechanism for adjusting the value of market price changes for electricity and CO₂ emission allowances from this date up until the closing of the Transaction. This mechanism ensures that neither the operational business of the Company nor market price changes in 2016 will have any effect on Vattenfall's economic position. It entails that a higher margin for lignite-based production (clean lignite spreads) during this period will reduce the need of capital in the Company, at the same time that the value of the hedges retained by Vattenfall will decrease (and vice versa in the event of lower clean lignite spreads). At the time of the contract's signing on 18 April 2016, this entailed that cash holdings of SEK 15 billion would be attributable to the Company, and that the value of the hedges retained by Vattenfall amounted to SEK 9 billion.

In order to make the financial consequences of the Transaction more predictable for both parties, in mid-July Vattenfall and the buyer adjusted the hedge mechanism to current market prices and entered into new hedges for most of the generation for the period 2016–2019, which can be regarded as a substitute for hedges at historical price levels. As the clean lignite spreads have increased during the period since the signing of the agreement, the agreed-upon mechanism in the sale and purchase agreement has resulted in a lower cash contribution than originally indicated at the signing date, but also a lower value of Vattenfall's remaining hedge contracts. Thus at the end of the quarter, the cash attributable to the Company amounts to SEK 9.4 billion, taking into account the need for a lower cash contribution and the change in cash flow in the operating activities since 1 January, and the value of the hedge contracts retained by Vattenfall is SEK 3 billion. All in all this stabilises the Company's economic prospects during a period after completion of the Transaction, with unchanged implications compared with the situation at the time signing of the agreement.

The sale is expected to close during the autumn 2016. The deal is contingent upon clearance by the European Commission.

Financial consequences

Total effect on Vattenfall's earnings

For the second quarter of 2016 the total effect of the Transaction on Vattenfall's earnings is SEK -21.5 billion, compared with estimated SEK -22–27 billion that was communicated at the signing date. The final effect on Vattenfall's earnings will be determined as per the closing date and will be reported and recognised in Vattenfall's third quarter interim report. It is expected that this effect will not deviate significantly from the adjustment that has now been made as per mid-July. However, additional currency effects of approximately SEK -0.5 billion will be included.

Effect on adjusted net debt

At the signing date Vattenfall disclosed that total provisions and liabilities amounted to SEK 18 billion, net. Of these, provisions for mining operations, other environment-related provisions, and provisions for pensions amounted to SEK 15.9 billion, which affect adjusted net debt. At the end of the quarter these amounted to SEK 16.5 billion. Vattenfall's adjusted net debt has decreased by SEK 7.1 billion as a result of the Transaction.

Pro forma information on hold values

Based on a number of different scenarios, Vattenfall has analysed the value of holding the Company and continuing to run it under its own management. Together with possible financial effects, the hold values depend to a great extent on the long-term expectations of future price development. It is estimated that in a scenario in which Vattenfall holds and continues to run the Company, impairment losses as per 30 June 2016 of SEK 30 billion would be recognised in addition to provisions in the range of SEK 5-10 billion.

Financial performance

Overall, the investment in the Company has been profitable for Vattenfall, even when considering historical impairment losses. The total estimated annual return of the investment has been in line with Vattenfall's required rate of return.

Restatement of balance sheet as per 31 December 2015

The balance sheet below shows the published balance sheet for Vattenfall in total as per 31 December 2015. On the balance sheet for the continuing operations as per 31 December 2015, assets and liabilities pertaining to the lignite operations have been reclassified to the lines "Assets held for sale" and "Liabilities associated with assets held for sale".

Amounts in SEK million	
Total non-current assets	
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Total equity	
Total non-current liabilities	
Liabilities associated with assets held for sale	
Other current liabilities	
Total current liabilities	
Total equity and liabilities	462 317 463 640

Presentation of lignite operations

In view of the sale of Vattenfall's lignite operations, these are classified and recognised as a discontinued operation starting with the second quarter of 2016, in accordance with IFRS 5 – Non-Current Assets Held for Sale and Discontinued Operations. The financial performance that is reported and commented on in this interim report pertains to the continuing operations in Vattenfall, unless indicated otherwise.

Income statement: In accordance with IFRS 5, earnings from the lignite operations are reported separately in Vattenfall's income statement under "Discontinued operations". Comparison figures for 2015 have been recalculated in the corresponding manner. In the segment reporting, the parts of the Power Generation and Heat segments that pertain to the lignite operations have been reclassified as "Discontinued operations", and the Power Generation and Heat operating segments have been recalculated for earlier periods so that they only include the continuing operations.

Balance sheet: Starting with the second quarter of 2016, assets and liabilities in the lignite operations are reported as "assets/liabilities associated with assets held for sale". In accordance with IFRS 5, the balance sheet on pages 26–27 has not been restated to reflect earlier periods. Comparison figures for 2015 thus pertain to Vattenfall in total, including the lignite operations.

Calculation of the supplementary information regarding capital employed and adjusted gross and net debt pertains to continuing operations (due to reclassification of assets and liabilities in the lignite operations to "assets/liabilities associated with assets held for sale") as per 30 June 2016. Comparison figures for 2015 pertain to Vattenfall in total, including the lignite operations.

Cash flow: The statement of cash flows pertains to Vattenfall in total, including the lignite operations.

Key ratios: The key ratios are based on both Vattenfall in total, including the lignite operations, and on continuing operations. Certain key ratios are reported only for continuing operations.

For reporting on Vattenfall's discontinued operations, read more in Note 4, Discontinued operations, on page 37.

Key data

Amounts in SEK million unless indicated otherwise	Q2 2016	Q2 2015	Q1-Q2 2016	Q1-Q2 2015	Full year 2015	Last 12 months
Continuing operations						
Net sales	30 047	30 951	71 666	70 269	143 576	144 973
Operating profit before depreciation, amortisation and impairment losses (EBITDA) ¹	4 274	5 211	18 010	17 059	30 604	31 555
Underlying operating profit before depreciation, amortisation and impairment losses ¹	7 295	7 822	19 128	18 885	35 229	35 472
Operating profit (EBIT) ¹	-8 272	-19 116	1 927	-11 050	-5 069	7 908
Underlying operating profit ¹	3 701	4 056	12 001	11 442	20 529	21 088
Profit for the period	-5 818	-14 625	1 002	-9 778	-5 188	5 592
Funds from operations (FFO) ^{1,9}	6 446	4 154	15 528	13 950	29 009	30 587
Net debt ¹	63 654	72 839	63 654	72 839	64 201	
Adjusted net debt ¹	128 948	149 080	128 948	149 080	137 585	
Electricity generation, TWh	26.6	26.9	61.1	59.3	118.0 ³	119.8
- of which, hydro power	8.4	9.6	19.3	19.4	39.5 ³	39.4
- of which, nuclear power	10.3	9.9	23.9	21.9	42.2	44.2
- of which, fossil-based power ²	6.5	6.0	14.8	14.8	29.0 ³	29.0
- of which, wind power	1.3	1.2	2.8	2.7	5.8	5.9
- of which, biomass, waste ²	0.1	0.2	0.3	0.5	1.5 ³	1.3
Sales of electricity, TWh	46.4	45.9	102.4	99.3	197.2	200.3
Sales of heat, TWh	3.1	3.9	11.0	12.1	20.6	19.5
Sales of gas, TWh	8.3	8.4	30.3	30.2	50.7	50.8
Total Vattenfall						
CO ₂ emissions, Mtonnes	19.4 ⁴	20.3	41.3	40.8	83.8	
Number of employees, full-time equivalents	27 980	28 977	27 980	28 977	28 567	
Work related accidents, number (LTIF) ⁵	2.1	2.5	2.1	2.5	2.3	
Key ratios						
Return on capital employed, continuing operations, %	3.1 ^{6,10}	N/A ^{6,8}	3.1 ⁶	N/A ^{6,8}	- 1.8	
Return on capital employed, total Vattenfall, %	- 5.5 ^{6,10}	- 14.6 ⁶	- 5.5 ^{6,7}	- 14.6 ⁶	- 8.2	
Net debt/equity, %	72.6	67.3	72.6	67.3	55.4	
FFO/adjusted net debt, continuing operations, %	22.4 ⁶	N/A ^{6,8}	22.4 ⁶	N/A ^{6,8}	19.5	
FFO/adjusted net debt, total Vattenfall, %	23.7 ^{6,7}	21.1 ⁶	23.7 ^{6,7}	21.1 ⁶	21.1	
Adjusted net debt/EBITDA, continuing operations, times	4.1 ⁶	N/A ^{6,8}	4.1 ⁶	N/A ^{6,8}	4.5	
Adjusted net debt/EBITDA, total Vattenfall, times	3.7 ^{6,7}	4.0 ⁶	3.7 ^{6,7}	4.0 ⁶	4.2	

1) See Definitions and calculations of key ratios for a definition of this Alternative Performance Measure.

2) Values for 2016 are preliminary.

3) The value has been adjusted compared with the value presented in Vattenfall's 2015 year-end report.

4) Consolidated values for 2016. Consolidated emissions are approximately 0.5% higher than pro rata emissions, corresponding to Vattenfall's share of ownership.

5) Lost time Injury Frequency (LTIF) is expressed in terms of the number of lost time work injuries (per 1 million hours worked), i.e., work related accidents resulting in absence longer than one day, and accidents resulting in fatality. Pertains only to Vattenfall employees.

6) Last 12-month values.

7) The lignite operations are classified as assets held for sale on the balance sheet as per 30 June 2016. As a result, the lignite operations are excluded from balance sheet items included in the calculations of key ratios.

8) This key ratio has not been calculated, as it is based on last 12-month values, which have not been recalculated for the continuing operations for 2014.

9) Pertains to Vattenfall in total.

10) The key ratio is based on average capital employed. The lignite operations are classified as assets held for sale on the balance sheet as per 30 June 2016, but not as per 30 June 2015, which entails that average capital employed includes the lignite operations as per 30 June 2015 but not as per 30 June 2016.

Targets and target achievement

(The financial targets are reported for both continuing operations and Vattenfall in total. The strategic targets pertain to Vattenfall in total.)

Vattenfall's assignment is to generate a market rate of return by operating an energy business in such a way that the company is among the leaders in developing environmentally sustainable energy production.

Vattenfall's owner and Board of Directors have set four financial targets for the Group, and the Board has set six strategic targets that apply from 2016.

Financial targets

The financial targets relate to profitability, capital structure and the dividend policy, and were set by the owner in November 2012. These targets are intended to ensure that Vattenfall creates value and generates a market rate of return, that the capital structure is efficient, and that financial risk is kept at a reasonable level. The targets are to be evaluated over a business cycle.

	Target	30 June 2016	30 June 2015	Full year 2015
Return on capital employed (ROCE), continuing operations	9%	3.1 ^{1,4}	N/A ^{1,3}	-1.8
Return on capital employed (ROCE), total Vattenfall	9%	-5.5 ^{1,4}	-14.6 ¹	-8.2
FFO/adjusted net debt, continuing operations	22%-30%	22.4 ¹	N/A ^{1,3}	19.5
FFO/adjusted net debt, total Vattenfall	22%-30%	23.7 ^{1,2}	21.1 ¹	21.1
Net debt/equity	50%-90%	72.6	67.3	55.4
Dividend policy	40%-60% of the year's profit after tax	—	—	—

1) Last 12-month values.

2) The lignite operations are classified as assets held for sale on the balance sheet as per 30 June 2016. As a result, the lignite operations are excluded from balance sheet items included in the calculations of key ratios.

3) This key ratio has not been calculated, as it is based on last 12-month values, which have not been recalculated for the continuing operations for 2014

4) The key ratio is based on average capital employed. The lignite operations are classified as assets held for sale on the balance sheet as per 30 June 2016, but not as per 30 June 2015, which entails that average capital employed includes the lignite operations as per 30 June 2015 but not as per 30 June 2016.

Comment: Return on capital employed for Vattenfall total decreased mainly due to the impairment of asset values during the first half of the year, totalling SEK 30.0 billion. Excluding impairment losses and other items affecting comparability, return on capital employed was 8.3% (7.5%) for Vattenfall in total. Return on capital employed for continuing operations was 3.1%. FFO/adjusted net debt for Vattenfall in total was 23.7% (21.1%), which is within the target interval. For continuing operations, FFO/adjusted net debt was 22.4%. The debt/equity ratio increased compared with 2015.

Strategic targets

Vattenfall aims to contribute to a sustainable energy system across the value chain and be a truly customer-centric company. At the same time, Vattenfall is working to shift to a long-term sustainable production portfolio. Vattenfall's strategy is built upon four strategic objectives: 1) Leading towards sustainable consumption, 2) Leading towards sustainable production, 3) High performing operations, and 4) Empowered and engaged organisation. The strategic targets apply as from January 2016.

	Target 2020	30 June 2016	30 June 2015	Full year 2015
Customer loyalty, NPS (Net Promoter Score)	+ 2 NPS relative ²	+6	—	—
Commissioned renewables capacity	≥ 2,300 MW	76	—	N/A
Absolute CO ₂ emissions, pro rata	≤ 21 Mtonnes ³	41.3 ⁴	40.8	83.8
Return on capital employed (ROCE), continuing operations	9%	3.1 ^{1,5}	N/A ^{1,6}	-1.8
Return on capital employed (ROCE), total Vattenfall	9%	-5.5 ^{1,5}	-14.6 ¹	-8.2
LTIF ⁷ (Lost Time Injury Frequency)	≤ 1.25	2.1 ¹	2.5 ¹	2.3
Employee Engagement Index	≥ 70% ⁸	—	—	59

1) Last 12-month values.

2) NPS is a tool for measuring customer loyalty and for gaining an understanding of customers' perceptions of Vattenfall's products and services. The target is a positive NPS in absolute terms +2 compared to Vattenfall's peer competitors. NPS is a new strategic target that is measured on a yearly basis.

3) Contingent on the sale of Vattenfall's lignite operations.

4) Consolidated values for 2016. Consolidated emissions are approximately 0.5% higher than pro rata values, corresponding to Vattenfall's share of ownership.

5) The key ratio is based on average capital employed. The lignite operations are classified as assets held for sale on the balance sheet as per 30 June 2016, but not as per 30 June 2015, which entails that average capital employed includes the lignite operations as per 30 June 2015 but not as per 30 June 2016.

6) This key ratio has not been calculated, as it is based on last 12-month values, which have not been recalculated for the continuing operations for 2014.

7) Lost Time Injury Frequency (LTIF) is expressed in terms of the number of lost time work injuries (per 1 million hours worked), i.e., work related accidents resulting in absence longer than one day, and accidents resulting in fatality. The ratio pertains only to Vattenfall employees and is based on last 12-month values.

8) Documentation for measurement of target achievement is derived from the results of the My Opinion employee survey, which is conducted on an annual basis.

Comment: During the second quarter of 2016 the Swedish onshore wind farm Höge Väg (38 MW) became operational. CO₂ emissions during the first half of 2016 increased to 41.3 Mtonnes (40.8) compared with the corresponding period in 2015, which is mainly attributable to the commissioning of the Moorburg power plant in Germany. For continuing operations, CO₂ emissions amounted to 11.5 Mtonnes for the first half of 2016. Lost Time Injury Frequency (LTIF) was lower than in the corresponding period a year ago.

Important events Q2 2016

Vattenfall to sell its German lignite operations

On 18 April Vattenfall signed an agreement to sell its lignite operations to the Czech energy company EPH and its financial partner PPF Investments. The sale includes all of Vattenfall's lignite assets in Germany: the Jänschwalde, Boxberg and Schwarze Pumpe power plants, Vattenfall's share in the Lippendorf power plant, and the Jänschwalde, Nochten, Welzow-Süd, Reichwalde, and the recently closed Cottbus-Nord open cast mines. The sale of the lignite operations is described in more detail on pages 3-4.

Impairment losses

As part of its regular impairment testing, during the second quarter of 2016 Vattenfall recognised impairment of assets totalling SEK 30.0 billion, of which SEK 21.0 billion is attributable to Vattenfall's lignite operations, which are classified as "Discontinued operations" starting with the second quarter.

The impairment losses are mainly broken down as follows:

- SEK 21.0 billion pertains to impairment of lignite assets in Germany. See pages 3-4 for further information about the sale of the lignite operations.
- SEK 4.6 billion pertains to impairment of the Moorburg power plant in Hamburg. The impairment loss is mainly warranted by poorer production margins (clean dark spreads).
- SEK 2.3 billion pertains to impairment of hydro power assets (pumped storage power stations) in Germany.
- SEK 1.6 billion pertains to impairment of fossil-based assets in the Netherlands (0.9) and Trading in the Netherlands (0.7).

For further information about the impairment losses, see the specification of items affecting comparability on page 11 and Note 5, Impairment losses, on page 38.

Proposal for changed delegation of responsibility for decommissioning of nuclear power in Germany

On 27 April the German nuclear power commission presented its recommendations for the delegation of responsibility for Germany's nuclear phase-out. According to these recommendations, responsibility for interim and final storage of radioactive waste will be transferred to the state along with the necessary funds. The nuclear power operators will retain responsibility for decommissioning and dismantling the reactors and the packaging of waste. In total the proposal entails the transfer of EUR 17.2 billion from the nuclear power operators to a fund. In addition, the nuclear power operators will pay a risk premium of 35%, or EUR 6.1 billion. A change in German law will be required for the recommendations to be binding.

Vattenfall to invest billions in Uppsala to reduce CO₂ emissions

Vattenfall took the decision to proceed with the project planning of a new heating plant in Uppsala that will replace peat and oil with renewable biomass. This will lower CO₂ emissions in Uppsala and ensure the future supply of climate-neutral heat, cooling and steam. In the future, the new heating plant may be fitted with an efficient turbine for generating electricity. The aim is to make a definitive investment decision in 2018. In addition to the new heating plant, Vattenfall will invest in additional environment improvement measures in Uppsala through 2022. The plan is to invest a total of SEK 3 billion in climate-protection measures during the coming six-year period.

Vattenfall building Denmark's largest offshore wind farm

Construction of the Horns Rev (400 MW) offshore wind farm off the west coast of Denmark began during the quarter. Horns Rev 3 will be commissioned in 2018 and will supply enough electricity to power 400,000 Danish homes. The total investment will be just over EUR 1 billion.

Offshore wind farm extension inaugurated in the UK

On 6 June the extension of the Kentish Flats (combined 150 MW) offshore wind farm in the UK was inaugurated. The extension, comprising an additional 15 wind turbines (50 MW), became operational at the end of 2015.

SKB meets radiation protection requirements for final repository method according to SSM

In a statement to Sweden's land and environmental court, the Swedish Radiation Safety Authority (SSM) has stated that the system for final storage of spent nuclear fuel chosen by SKB (the Swedish Nuclear Fuel and Waste Company) meets existing radiation protection requirements. SKB filed an application in 2011 for permission to build the final repository for spent nuclear fuel in Forsmark, in Östhammar municipality. The application also included an encapsulation facility. In 2017 SSM will give its final assessment to the Swedish government, which will decide if the repository may be built or not. If construction starts in 2019 as planned, the repository can be put in operation in 2027.

Decision from Energy Commission on Sweden's future energy policy

On 10 June a parliamentary agreement on the future direction of Swedish energy policy was reached, with the ambition to create a 100% renewable energy system for the future. The agreement entails a phase-out of the nuclear capacity tax over a two-year period, starting in 2017. The agreement also entails that the property tax on hydro power will be successively lowered during a four-year period starting in 2017, from 2.8% to 0.5%.

Vattenfall decides to invest in Forsmark

Following the decision to phase out the nuclear capacity tax as announced in the parliamentary energy agreement, Vattenfall's board of directors decided to invest in independent core cooling in Forsmark's three nuclear reactors. The next step is a decision by Forsmark Kraftgrupp AB's board of directors, after which implementation can begin.

Important events after the balance sheet date

Swedish state confirms Vattenfall's sale of its lignite operations in Germany

On 2 July Vattenfall's owner confirmed that it stands behind the sale of Vattenfall's lignite operations in Germany. The sale is expected to close during the autumn 2016. The deal is subject to merger clearance by the European Commission.

Decision on investment in offshore wind farm off the coast of Aberdeen

On 20 July Vattenfall decided to invest approximately GBP 300 million (corresponding to approximately SEK 3 billion) in an offshore wind farm (92.4 MW) off the coast of Aberdeen, Scotland. The wind farm is expected to be operational in 2018.

Sales, profit and cash flow

(Reporting of figures and comments pertains to continuing operations, unless indicated otherwise)

Net sales

Continuing operations, amounts in SEK million	Q2 2016	Q2 2015	Q1-Q2 2016	Q1-Q2 2015	Full year 2015	Last 12 months
Net sales	30 047	30 951	71 666	70 269	143 576	144 973

Comment Q2: Consolidated net sales for the second quarter decreased by SEK 0.9 billion compared with the corresponding period in 2015.

Comment Q1-2: Consolidated net sales increased by SEK 1.4 billion compared with the corresponding period in 2015.

Earnings

Continuing operations, amounts in SEK million	Q2 2016	Q2 2015	Q1-Q2 2016	Q1-Q2 2015	Full year 2015	Last 12 months
Operating profit (EBIT) ¹	-8 272	-19 116	1 927	-11 050	-5 069	7 908
Depreciation, amortisation and impairment losses	12 546	24 327	16 083	28 109	35 673	23 647
Operating profit before depreciation, amortisation and impairment losses (EBITDA)¹	4 274	5 211	18 010	17 059	30 604	31 555
Items affecting comparability excl. impairment losses and reversed impairment losses	3 021	2 611	1 118	1 826	4 625	3 917
Underlying operating profit before depreciation, amortisation and impairment losses¹	7 295	7 822	19 128	18 885	35 229	35 472
Operating profit (EBIT)	-8 272	-19 116	1 927	-11 050	-5 069	7 908
Items affecting comparability ¹	11 973	23 172	10 074	22 492	25 598	13 180
Underlying operating profit¹	3 701	4 056	12 001	11 442	20 529	21 088

1) See Definitions and calculations of key ratios for definitions of Alternative Performance Measures.

Comment Q2: The underlying operating profit decreased by SEK 0.4 million, which is explained by the following:

- Lower sales of heat (SEK -0.3 billion)
- Lower earnings contribution from the trading operations (SEK -0.3 billion)
- Lower earnings contribution from the distribution operations (SEK -0.4 billion), mainly associated with the divested network services operation in Hamburg
- Lower operating costs (SEK 0.7 billion), of which SEK 0.5 billion is attributable to the divested network services operation in Hamburg
- Other items, net (SEK -0.1 billion)

Comment Q1-2: The underlying operating profit increased by SEK 0.6 million, which is explained by the following:

- Lower sales of heat (SEK -0.4 billion)
- Lower earnings contribution from the trading operations (SEK -0.5 billion)
- Lower operating costs (SEK 1.4 billion), of which SEK 0.8 billion is attributable to the divested network services operation in Hamburg
- Lower depreciation (SEK 0.3 billion)
- Other items, net (SEK -0.2 million)

Items affecting comparability affecting operating profit (EBIT)

Continuing operations, amounts in SEK million	Q2 2016	Q2 2015	Q1-Q2 2016	Q1-Q2 2015	Full year 2015	Last 12 months
Capital gains	275	226	2 044	305	249	1 988
Capital losses	- 20	- 361	- 96	- 373	- 369	- 92
Impairment losses	- 8 952	- 21 052	- 8 956	- 21 157	- 21 507	- 9 306
Reversed impairment losses	—	491	—	491	534	43
Provisions	—	- 1 306	—	- 1 306	- 3 463	- 2 157
Unrealised changes in the fair value of energy derivatives	- 3 751	169	- 3 373	912	1 558	- 2 727
Unrealised changes in the fair value of inventories	404	- 7	608	- 43	- 657	- 6
Restructuring costs	17	- 880	- 274	- 869	- 1 105	- 510
Other non-recurring items affecting comparability	54	- 452	- 27	- 452	- 838	- 413
Total	- 11 973	- 23 172	- 10 074	- 22 492	- 25 598	- 13 180

Comment Q2: Items affecting comparability amounted to SEK -12.0 billion (-23.2). Impairment of asset values amounted to SEK -9.0 billion and pertained primarily to the Moorburg power plant in Hamburg, hydro power assets in Germany, and fossil-based assets in the Netherlands. (For further information about the impairment losses, see Note 5 on page 38). Capital gains amounted to SEK 0.3 billion and pertained mainly to the sale of real estate in Berlin. Other items affecting comparability pertain to unrealised changes in the market value of energy derivatives and inventories (SEK -3.3 billion). Items affecting comparability for the corresponding quarter in 2015 consisted mainly of impairment of asset values, mainly pertaining to Ringhals 1 and 2, and Moorburg (SEK -21.1 billion), higher provisions for the decommissioning of nuclear power in Germany (SEK -1.3 billion), and restructuring costs (SEK -0.9 billion).

Comment Q1-2: Items affecting comparability amounted to SEK -10.1 billion (-22.5).

Profit for the period

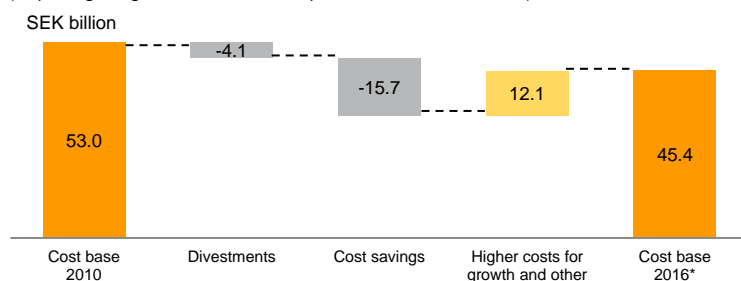
Continuing operations, amounts in SEK million	Q2 2016	Q2 2015	Q1-Q2 2016	Q1-Q2 2015	Full year 2015	Last 12 months
Profit for the period	- 5 818	- 14 625	1 002	- 9 778	- 5 188	5 592

Comment Q2: Profit for the period amounted to SEK -5.8 billion (-14.6). Impairment losses, higher provisions and other items affecting comparability had a negative impact on profit, by SEK -8.5 billion.

Comment Q1-2: Profit for the period amounted to SEK 1.0 billion (-9.8).

Cost savings

(Reporting of figures and comments pertains to Total Vattenfall)



* Last 12-month values.

Comment: Vattenfall has taken numerous measures to cut costs, and compared with the cost base in 2010, Vattenfall has lowered costs under its control by approximately 29%. Divestments of operations have reduced costs by SEK 4.1 billion. Cost savings have been achieved mainly through reductions in personnel, IT costs and purchasing costs. Costs for growth pertain mainly to new production plants. The ongoing savings programme of SEK 2.5 billion for 2015–2016 is in progress. During the coming autumn the process for outsourcing parts of administration and IT operations will ensue with an invitation to selected external service providers to submit tenders.

Financial items

Continuing operations, amounts in SEK million	Q2 2016	Q2 2015	Q1-Q2 2016	Q1-Q2 2015	Full year 2015	Last 12 months
Net financial items	- 843	- 1 270	- 2 416	- 2 674	- 4 776	- 4 518
- of which, interest income	96	292	209	346	907	770
- of which, interest expenses	- 669	- 1 177	- 1 831	- 1 837	- 3 448	- 3 442
- of which, return from the Swedish Nuclear Waste Fund	356	551	512	766	1 168	914
- of which, interest components related to pension costs	- 236	- 230	- 472	- 461	- 922	- 933
- of which, discounting effects attributable to provisions	- 780	- 753	- 1 550	- 1 510	- 2 908	- 2 948
- of which, other	390	47	716	22	427	1 121
Interest received ¹	173	214	707	463	845	1 089
Interest paid ¹	- 856	- 1 487	- 2 753	- 3 145	- 3 413	- 3 021

1) Pertains to cash flows.

Comment: Net financial items for the second quarter of 2016 were lower than in the corresponding period in 2015. Higher market values of derivatives had a positive effect on net financial items (SEK 0.3 billion) during the second quarter of 2016. Higher interest costs during the second quarter of 2015 were mainly attributable to a negative ruling for Vattenfall in a dispute with Dong Energy (SEK 0.3 billion).

Cash flow

(Reporting of figures and comments pertains to Total Vattenfall)

Total Vattenfall, amounts in SEK million	Q2 2016	Q2 2015	Q1-Q2 2016	Q1-Q2 2015	Full year 2015	Last 12 months
Funds from operations (FFO)	6 446	4 154	15 528	13 950	29 009	30 587
Cash flow from changes in operating assets and operating liabilities (working capital)	3 412	5 563	- 8 328	2 522	11 925	1 075
Cash flow from operating activities	9 858	9 717	7 200	16 472	40 934	31 662

Comment Q2: Funds from operations (FFO) increased by SEK 2.3 billion, mainly owing to an income tax refund in Germany related to Moorburg.

Cash flow from changes in working capital amounted to SEK 3.4 billion. This is mainly attributable to a decrease in operating receivables in Customers & Solutions and Heat (SEK 4.4 billion), and a net change in margin calls (SEK -2.6 billion).

Comment Q1-2: Funds from operations (FFO) increased by SEK 1.6 billion.

Cash flow from changes in working capital amounted to SEK -8.3 billion. This is mainly attributable to a net change in margin calls (SEK -4.3 billion) and a net change in receivables and liabilities, which is partly attributable to temporary effects related to CO₂ emission allowances.

Financial position

Amounts in SEK million	30 June 2016	31 Dec. 2015	Change, %
Cash and cash equivalents, and short-term investments	30 958 ¹	44 256 ¹	-30.0
Committed credit facilities (unutilised)	18 848	18 379	2.6

1) The amounts as of 30 June 2016 pertains to Continuing operations, and the amounts as of 31 December 2015 pertains to Total Vattenfall.

Comment: Cash and cash equivalents, and short-term investments decreased by SEK 13.3 billion compared with the level at 31 December 2015, mainly due to the reclassification of assets attributable to the lignite operations to “Assets/liabilities associated with assets held for sale” and repayment of a large bond loan. The divestment of the Ormonde offshore wind farm in the UK had a positive effect.

Committed credit facilities consist of a EUR 2.0 billion Revolving Credit Facility that expires on 10 December 2020, with an option for a one-year extension. As per 30 June 2016, available liquid assets and/or committed credit facilities amounted to 27% of net sales. Vattenfall’s target is to maintain a level of no less than 10% of the Group’s net sales, but at least the equivalent of the next 90 days’ maturities.

Amounts in SEK million	30 June 2016	31 Dec. 2015	Change, %
Interest-bearing liabilities ¹	96 634 ³	110 585 ³	-12.6
Net debt ¹	63 654 ³	64 201 ³	-0.9
Adjusted net debt ¹ (see page 27)	128 948 ³	137 585 ³	-6.3
Average interest rate, % ²	4.0	3.9	—
Duration, years ²	6.0	3.9	—
Average time to maturity, years ²	8.8	8.1	—

1) See Definitions and calculations of key ratios for definitions of Alternative Performance Measures.

2) Including Hybrid Capital and loans from owners with non-controlling interests and associated companies.

3) The amounts as per 30 June 2016 pertain to Continuing operations, and the amounts as per 31 December 2015 pertain to Total Vattenfall.

Comment: Total interest-bearing liabilities for the second quarter of 2016 decreased by SEK 14 billion compared with the level at 31 December 2015. This is mainly attributable to repurchases of bond loans, repayment of short-term loans, and to the fact that a large bond loan fell due for payment during first quarter of 2016.

Net debt decreased by SEK 0.5 billion compared with the level at 31 December 2015.

Adjusted net debt decreased by SEK 8.7 billion compared with the level at 31 December 2015. The decrease is mainly attributable to a lower level of net debt and to the reclassification of provisions for future obligations and pension provisions attributable to the lignite operations to “Liabilities associated with assets held for sale”. Higher pension obligations resulting from a lower discount rate increased adjusted net debt.

Credit ratings

On 13 May 2016, Moody’s affirmed Vattenfall’s long-term A3 rating and Baa2 rating for hybrid bonds. The outlook for Vattenfall’s rating is negative. On 19 May 2016 Standard & Poor’s affirmed Vattenfall’s long-term BBB+ rating. At the same time, Standard & Poor’s affirmed Vattenfall’s short-term A-2 rating. The outlook for Vattenfall’s rating is negative.

Investments and divestments

Amounts in SEK million	Q2 2016	Q2 2015	Q1-Q2 2016	Q1-Q2 2015	Full year 2015	Last 12 months
Maintenance investments	2 186	2 860	4 013	5 099	12 329	11 243
Growth investments	2 021	3 203	3 430	5 991	12 709	10 148
Total investments from continuing operation	4 207	6 063	7 443	11 090	25 038	21 391
Accrued investments (-)/release of accrued investments (+)	80	- 155	178	- 190	738	1 106
Total investments with cash flow effect from continuing operation	4 287	5 908	7 621	10 900	25 776	22 497
Investments with cash flow effect from discontinued operations	706	818	1 131	1 383	2 950	2 698
Total investments with cash flow effect	4 993	6 726	8 752	12 283	28 726	25 195
Divestments total Vattenfall	984	1 479	4 020	2 232	2 814	4 602
- of which, shares	142	47	1 266	226	206	1 246

Comment: Investments are specified in the table below. Divestments in 2016 pertain mainly to Vattenfall's network services operation in Hamburg, Germany, the sale of real estate in Bramfeld (Hamburg) and Berlin, and the Nordjylland combined heat and power station in Denmark. Divestments during the corresponding period in 2015 pertained primarily to combined heat and power assets in Utrecht, the Netherlands.

Specification of investments

Amounts in SEK million	Q2 2016	Q2 2015	Q1-Q2 2016	Q1-Q2 2015	Full year 2015	Last 12 months
Electricity generation						
Hydro power	400	391	664	584	1 706	1 786
Nuclear power	537	1 043	1 086	1 832	4 219	3 473
Coal power	114	487	180	841	1 292	631
Gas	53	18	116	30	174	260
Wind power	1 396	2 134	2 378	4 091	8 629	6 916
Biomass, waste	3	6	5	6	25	24
Other	—	—	—	143	—	- 143
Total electricity generation	2 503	4 079	4 429	7 527	16 045	12 947
CHP/heat						
Fossil-based power	263	289	612	658	1 949	1 903
Biomass, waste	31	10	37	31	145	151
Other	186	318	306	381	1 242	1 167
Total CHP/heat	480	617	955	1 070	3 336	3 221
Electricity networks						
Electricity networks	1 185	964	1 949	1 812	4 671	4 808
Total Electricity networks	1 185	964	1 949	1 812	4 671	4 808
Purchases of shares, shareholder contributions	- 86	- 150	- 237	- 157	- 267	- 347
Other	125	553	347	838	1 253	762
Total investments from continuing operation	4 207	6 063	7 443	11 090	25 038	21 391
Accrued investments (-)/release of accrued investments (+)	80	- 155	178	- 190	738	1 106
Total investments with cash flow effect from continuing operation	4 287	5 908	7 621	10 900	25 776	22 497
Investments with cash flow effect from discontinued operations	706	818	1 131	1 383	2 950	2 698
Total investments with cash flow effect	4 993	6 726	8 752	12 283	28 726	25 195

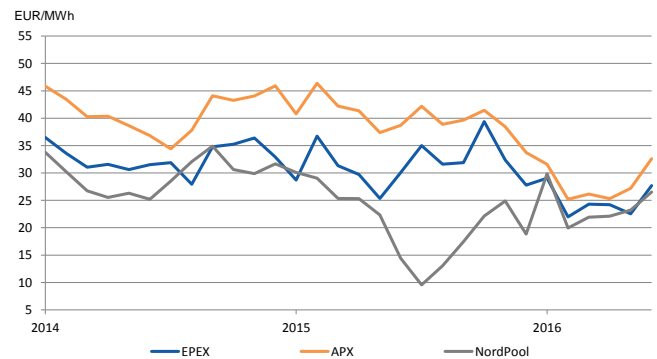
Wholesale price trend

Spot prices – electricity

Average Nordic spot prices were 15% higher during the second quarter of 2016 than in the corresponding period in 2015, mainly owing to a lower hydrological balance. Average spot prices in Germany and the Netherlands were 12% and 28% lower, respectively, as a result of lower commodity prices. Compared with the first half of 2015, average spot prices were 2% lower in the Nordic countries, 17% lower in Germany, and 32% lower in the Netherlands.

Time period	Nord Pool Spot (Nordic countries)	EPEX (Germany)	APX (Netherlands)
Q2 2016	23.9	24.7	28.3
Q2 2015	20.8	28.3	39.1
%	15%	-12%	-28%
Q1 2016	24.0	25.1	27.7
%	0%	-2%	2%
Q1-2 2016	24.0	25.0	28.0
Q1-2 2015	24.4	30.2	41.1
%	-2%	-17%	-32%

Electricity spot prices in the Nordic countries, Germany and the Netherlands, monthly averages

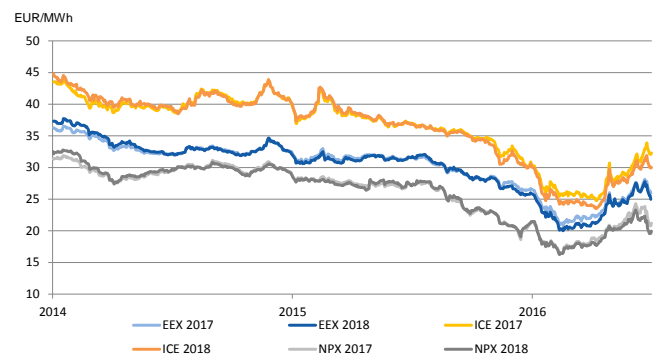


Futures prices – electricity

Electricity futures prices were 21%-25% lower than in the second quarter of 2015, mainly owing to continued expectations for low commodity prices. During the second quarter of 2016, commodity prices improved at the same time that the hydrological balance deteriorated, and as a result, electricity futures prices were 15%-18% higher in the Nordic countries than in the first quarter. In Germany and the Netherlands, electricity futures prices were 10%-14% higher than in the preceding quarter as a result of higher commodity prices. Compared with the first half of 2015, electricity futures prices were 24%-31% lower.

Time period	Nordic countries (NPX)		Germany (EEX)		Netherlands (ICE)	
	2017	2018	2017	2018	2017	2018
Q2 2016	21.2	20.5	25.1	24.6	29.1	28.0
Q2 2015	27.2	27.3	31.6	31.5	37.4	37.5
%	-22%	-25%	-21%	-22%	-22%	-25%
Q1 2016	18.0	17.9	22.6	21.7	26.5	25.3
%	18%	15%	11%	14%	10%	11%
Q1-2 2016	19.6	19.2	23.9	23.2	27.8	26.7
Q1-2 2015	27.6	27.6	31.6	31.3	38.3	38.5
%	-29%	-30%	-24%	-26%	-27%	-31%

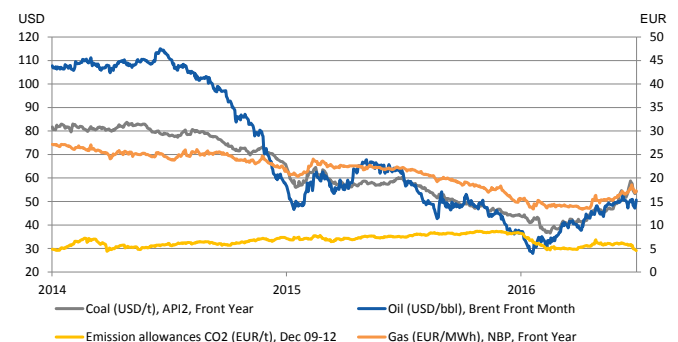
Electricity futures prices in the Nordic countries, Germany and the Netherlands



Commodity prices

Oil prices (Brent crude) were an average of 26% lower than in the second quarter of 2015. During the second quarter of 2016, prices strengthened due to supply outages, which led to oil prices that were an average of 33% higher than in the first quarter of 2016. Coal prices generally followed the trend in oil prices and were an average of 17% lower than during the second quarter of 2015, but 19% higher than in the first quarter of 2016. Gas prices were 30% lower than in the second quarter of 2015 and 33% lower compared with the first half of 2015. Prices of CO₂ emission allowances were 21% lower than in the first half of 2015.

Price trend for oil, coal, gas and CO₂ emission allowances



Vattenfall's price hedging

(Reporting of figures and comments pertains to continuing operations)

Vattenfall continuously hedges its future electricity generation through sales in the forward and futures markets. Spot prices therefore have only a limited impact on Vattenfall's earnings in the near term.

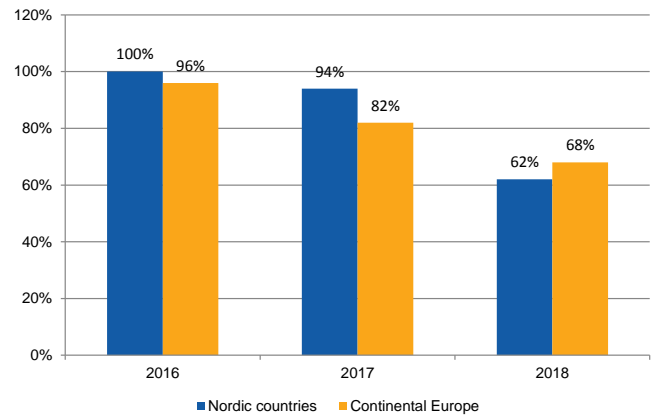
The chart shows the share of planned electricity generation that Vattenfall has hedged in the Nordic countries and Continental Europe (Germany and the Netherlands).

The hedged levels for the Nordic countries pertain to the system price on Nasdaq. Other price risks, such as price area risk, are not covered to the same extent.

Average price hedges as per 30 June 2016

EUR/MWh	2016	2017	2018
Nordic countries	32	29	29
Continental Europe	40	45	38

Vattenfall's hedge ratio (%) as per 30 June 2016



Operating segments

(Reporting of figures and comments pertains to continuing operations, unless indicated otherwise)

Customers & Solutions

Continuing operations, amounts in SEK million unless indicated otherwise	Q2 2016	Q2 2015	Q1-Q2 2016	Q1-Q2 2015	Full year 2015	Last 12 months
Net sales	14 313	18 898	35 494	45 638	87 523	77 379
External net sales ¹	14 202	18 502	34 862	44 819	84 905	74 948
Underlying operating profit before depreciation, amortisation and impairment losses	636	680	1 621	1 615	2 271	2 277
Underlying operating profit	392	449	1 148	1 177	1 390	1 361
Sales of electricity, TWh	21.6	28.8	45.6	62.7	123.2	106.1
- of which, private customers	5.6	6.5	14.0	14.9	26.8	25.9
- of which, resellers	1.1	5.7	3.0	15.1	33.5	21.4
- of which, business customers	14.9	16.6	28.6	32.7	62.9	58.8
Sales of gas, TWh	8.3	8.4	30.3	30.2	50.7	50.8
Number of employees, full-time equivalents	3 228	3 273	3 228	3 273	3 168	

1) Excluding intra-Group transactions

The Customers & Solutions Business Area is responsible for sales of electricity, gas and energy services in all of Vattenfall's markets.

- Net sales decreased, mainly due to a reallocation of contracts with resellers from the Customers & Solutions Business Area to the Markets Business Area, which is included in the Power Generation operating segment.
- Lower sales and administration costs, and the sale of operations in the Netherlands had a positive effect on underlying operating profit.
- The change in electricity sales is attributable to the reallocation of contracts with resellers. Sales of gas decreased during the second quarter of 2016 as a result of slightly warmer weather in the Netherlands. For the first half of the year, sales of gas were unchanged compared with the corresponding period in 2015.

Power Generation

Continuing operations, amounts in SEK million unless indicated otherwise	Q2 2016	Q2 2015	Q1-Q2 2016	Q1-Q2 2015	Full year 2015	Last 12 months
Net sales	20 756	16 222	49 537	41 294	91 643	99 886
External net sales ¹	11 103	7 161	24 802	13 816	35 783	46 769
Underlying operating profit before depreciation, amortisation and impairment losses	3 228	3 951	6 870	8 565	15 822	14 127
Underlying operating profit	2 497	2 943	5 404	6 552	12 376	11 228
Electricity generation, TWh ²	18.7	19.5	43.2	41.3	82.4	84.3
- of which, hydro power	8.4	9.6	19.3	19.4	39.5 ³	39.4
- of which, nuclear power	10.3	9.9	23.9	21.9	42.2	44.2
- of which, biomass, waste	—	—	—	—	0.7 ³	0.7
Sales of electricity, resellers, TWh	2.8	—	10.8	—	—	10.8
Number of employees, full-time equivalents	7 674	7 761	7 674	7 761	7 771	

1) Excluding intra-Group transactions.

2) Values for 2016 are preliminary.

3) The value has been adjusted compared with the value presented in Vattenfall's 2015 year-end report.

Power Generation comprises the Generation and Markets Business Areas, and the Mining & Generation unit. The segment includes Vattenfall's hydro and nuclear power operations, optimisation and trading operations, and lignite operations.

- Net sales increased, which is mainly explained by a reallocation of contracts with resellers from the Customers & Solutions Business Area to the Markets Business Area, which is included in the Power Generation operating segment.
- The underlying operating profit decreased, mainly owing to lower production margins resulting from average lower prices achieved.
- Hydro power generation decreased during the second quarter of 2016 compared with 2015 as a result of lower reservoir levels. Nordic reservoir levels were 59% of capacity at the end of the second quarter, which is 2 percentage points below the normal level.
- Nuclear power generation increased compared with the corresponding period a year ago, owing to higher availability primarily at Ringhals. Combined availability for Vattenfall's nuclear power plants during the second quarter of 2016 was 67.2% (63.8%). The corresponding figure for the first half of the year was 76.9% (71.0%). During the second quarter of 2016 Forsmark had availability 78.7% (81.6%) and production of 5.5 TWh (5.8). Ringhals had availability of 57.0% (47.9%) and production of 4.8 TWh (4.0). During the first half of the year Forsmark had availability of 88.2% (86.5%) and production of 12.6 TWh (12.3). Ringhals had availability of 67.4% (58.1) and production of 11.3 TWh (9.6).

Wind

Continuing operations, amounts in SEK million unless indicated otherwise	Q2 2016	Q2 2015	Q1-Q2 2016	Q1-Q2 2015	Full year 2015	Last 12 months
Net sales	1 268	1 379	3 257	3 225	6 769	6 801
External net sales ¹	877	846	2 180	2 082	4 267	4 365
Underlying operating profit before depreciation, amortisation and impairment losses	712	905	2 222	2 244	4 621	4 599
Underlying operating profit	- 108	152	597	754	1 469	1 312
Electricity generation - wind power TWh	1.3	1.2	2.8	2.7	5.8	5.9
Number of employees, full-time equivalents	656	529	656	529	577	

1) Excluding intra-Group transactions

The Wind Business Area is responsible for Vattenfall's wind power operations.

- Net sales decreased by SEK 0.1 billion during the second quarter of 2016, mainly owing to lower prices received and less favourable wind conditions. Net sales increased slightly for the first half of the year, mainly owing to high electricity generation from the new wind farms that were commissioned at the end of 2015: the DanTysk offshore wind farm in Germany, the Clashindarroch onshore wind farm in the UK, the Klim onshore wind farm in Denmark, and the extension of the Kentish Flats offshore wind farm in the UK.
- The underlying operating profit decreased, mainly owing to lower production revenues, higher depreciation associated with the commissioning of new wind farms, and higher project planning and repair costs.
- Electricity generation increased mainly as a result of the commissioning of the new wind farms.

Heat

Continuing operations, amounts in SEK million unless indicated otherwise	Q2 2016	Q2 2015	Q1-Q2 2016	Q1-Q2 2015	Full year 2015	Last 12 months
Net sales	5 488	5 804	13 679	14 454	27 345	26 570
External net sales ¹	2 936	3 167	7 968	8 331	14 356	13 993
Underlying operating profit before depreciation, amortisation and impairment losses	1 047	1 088	4 139	3 791	5 689	6 037
Underlying operating profit	49	136	2 177	1 918	1 759	2 018
Electricity generation - TWh ²	6.6	6.2	15.1	15.3	29.8 ³	29.6
- of which, fossil-based power	6.5	6.0	14.8	14.8	29.0 ³	29.0
- of which, biomass, waste	0.1	0.2	0.3	0.5	0.8	0.6
Sales of heat, TWh	3.1	3.8	11.0	12.1	20.6	19.5
Number of employees, full-time equivalents	4 100	4 211	4 100	4 211	4 202	

1) Excluding intra-Group transactions.

2) Figures for 2016 are preliminary.

3) The value has been adjusted compared with the value presented in Vattenfall's 2015 year-end report.

The Heat Business Area comprises Vattenfall's heat operations, including all thermal operations (except lignite).

- Net sales decreased, mainly owing to lower sales of heat in connection with warmer weather and the divestment of the Nordjylland combined heat and power station in Denmark.
- The underlying operating profit improved during the first half of the year, mainly owing to a higher gross margin resulting from lower fuel costs.
- The decrease in the number of employees is mainly attributable to the divestment of the Nordjylland combined heat and power plant in Denmark.

Distribution

Continuing operations, amounts in SEK million unless indicated otherwise	Q2 2016	Q2 2015	Q1-Q2 2016	Q1-Q2 2015	Full year 2015	Last 12 months
Net sales	4 486	4 685	9 912	9 743	19 914	20 083
External net sales ¹	3 488	3 631	7 722	7 486	15 355	15 591
Underlying operating profit before depreciation, amortisation and impairment losses	1 559	1 803	4 133	3 965	8 189	8 357
Underlying operating profit	864	1 125	2 754	2 620	5 465	5 599
Number of employees, full-time equivalents	2 016	2 698	2 016	2 698	2 728	

1) Excluding intra-Group transactions.

The Distribution Business Area comprises Vattenfall's electricity distribution operations in Sweden and Germany (Berlin).

- Net sales for the second quarter of 2016 decreased as a result of the sale of the network services operation in Hamburg, Germany. Net sales for the first half of the year rose mainly as a result of higher prices.
- The underlying operating profit for the second quarter of 2016 decreased compared with the corresponding period in 2015. This is mainly attributable to a lower gross margin resulting from higher costs for goods sold. During the first half of the year, the underlying operating profit improved, mainly owing to lower costs.
- The decrease in the number of employees is mainly attributable to the divestment of the distribution operation in Hamburg.

Other¹

Continuing operations, amounts in SEK million unless indicated otherwise	Q2 2016	Q2 2015	Q1-Q2 2016	Q1-Q2 2015	Full year 2015	Last 12 months
Net sales	1 448	1 376	2 751	2 633	5 361	5 479
External net sales ²	51	82	110	104	178	184
Underlying operating profit before depreciation, amortisation and impairment losses	130	- 555	265	- 1 110	- 1 330	45
Underlying operating profit	24	- 699	43	- 1 394	- 1 897	- 460
Number of employees, full-time equivalents	3 330	3 570	3 330	3 570	3 319	

- 1) Other pertains mainly to all Staff functions, including Treasury and Shared Service Centres.
 2) Excluding intra-Group transactions.

The data reported above for the operating segments also include eliminations in the Group's sales and earnings.
 See pages 23-25.

Consolidated income statement

Amounts in SEK million	Q2 2016	Q2 2015 ⁹	Q1-Q2 2016	Q1-Q2 2015 ⁹	Full year 2015 ⁹	Last 12 months
Continuing operations						
Net sales	30 047	30 951	71 666	70 269	143 576	144 973
Cost of products sold ¹	- 34 565	- 44 347	- 63 597	- 71 865	- 129 222	- 120 954
Gross profit	- 4 518	- 13 396	8 069	- 1 596	14 354	24 019
Selling expenses, administrative expenses and research and development costs ²	- 4 125	- 5 273	- 8 601	- 9 432	- 19 326	- 18 495
Other operating income and expenses, net	248	- 347	2 172	- 84	400	2 656
Participations in the results of associated companies ³	123	- 100	287	62	- 497	- 272
Operating profit (EBIT)⁴	- 8 272	- 19 116	1 927	- 11 050	- 5 069	7 908
Financial income ^{5,8}	897	1 005	1 537	1 419	2 755	2 873
Financial expenses ^{6,7,8}	- 1 740	- 2 275	- 3 953	- 4 093	- 7 531	- 7 391
Profit before tax	- 9 115	- 20 386	- 489	- 13 724	- 9 845	3 390
Income tax expense	3 297	5 761	1 491	3 946	4 657	2 202
Profit for the period from continuing operations	- 5 818	- 14 625	1 002	- 9 778	- 5 188	5 592
Discontinued operation						
Profit for the period from discontinued operations, net after tax	- 22 826	- 14 187	- 23 044	- 14 047	- 14 578	- 23 575
Profit for the period	- 28 644	- 28 812	- 22 042	- 23 825	- 19 766	- 17 983
Attributable to owner of the Parent Company	- 28 508	- 24 996	- 22 236	- 20 317	- 16 672	- 18 591
Attributable to non-controlling interests	- 136	- 3 816	194	- 3 508	- 3 094	608
Supplementary information for continuing operations						
Operating profit before depreciation, amortisation and impairment losses (EBITDA)	4 274	5 211	18 010	17 059	30 604	31 555
Underlying operating profit before depreciation, amortisation and impairment losses	7 295	7 822	19 128	18 885	35 229	35 472
Underlying operating profit	3 701	4 056	12 001	11 442	20 529	21 088
Financial items, net excl. discounting effects attributable to provisions and return from the Swedish Nuclear Waste Fund	- 419	- 1 068	- 1 378	- 1 930	- 3 036	- 2 484
1) Of which, depreciation, amortisation and impairment losses	- 12 048	- 23 943	- 15 217	- 27 606	- 34 236	- 21 847
2) Of which, depreciation, amortisation and impairment losses	- 498	- 343	- 866	- 462	- 1 396	- 1 800
3) Of which impairment losses	—	- 41	—	- 41	- 41	—
4) Including items affecting comparability	- 11 973	- 23 172	- 10 074	- 22 492	- 25 598	- 13 180
5) Including return from the Swedish Nuclear Waste Fund	356	551	512	766	1 168	914
6) Including interest components related to pension costs	- 236	- 230	- 472	- 461	- 922	- 933
7) Including discounting effects attributable to provisions	- 780	- 753	- 1 550	- 1 510	- 2 908	- 2 948
8) Items affecting comparability recognised as financial income and expenses, net	—	- 3	1	- 3	- 18	- 14

9) The value for 2015 has been recalculated compared with information previously published in Vattenfall's 2015 interim reports and 2015 Annual and Sustainability Report. This is because the lignite operations have been divested and are reported as a discontinued operation in accordance with IFRS 5.

Consolidated statement of comprehensive income

(Reporting of figures and comments pertains to Total Vattenfall)

Total Vattenfall, amounts in SEK million	Q2 2016	Q2 2015	Q1-Q2 2016	Q1-Q2 2015	Full year 2015	Last 12 months
Profit for the period	- 28 644	- 28 812	- 22 042	- 23 825	- 19 766	- 17 983
Other comprehensive income						
Items that will be reclassified to profit or loss when specific conditions are met						
Cash flow hedges - changes in fair value	- 7 366	2 099	- 6 850	3 617	11 354	887
Cash flow hedges - dissolved against income statement	- 1 820	- 1 680	- 3 234	- 2 851	- 5 323	- 5 706
Cash flow hedges - transferred to cost of hedged item	—	10	- 7	24	- 3	- 34
Hedging of net investments in foreign operations	- 717	775	205	1 154	1 709	760
Translation differences	1 610	- 710	432	- 1 004	- 1 938	- 502
Income tax relating to items that will be reclassified	2 625	- 249	2 485	- 289	- 1 722	1 052
Total Items that will be reclassified to profit or loss when specific conditions are met	- 5 668	245	- 6 969	651	4 077	- 3 543
Items that will not be reclassified to profit or loss						
Remeasurement pertaining to defined benefit obligations	- 3 605	2 599	- 3 605	2 599	2 867	- 3 337
Income tax relating to items that will not be reclassified	1 044	- 702	1 044	- 702	- 762	984
Total Items that will not be reclassified to profit or loss	- 2 561	1 897	- 2 561	1 897	2 105	- 2 353
Total other comprehensive income, net after tax	- 8 229	2 142	- 9 530	2 548	6 182	- 5 896
Total comprehensive income for the period	- 36 873	- 26 670	- 31 572	- 21 277	- 13 584	- 23 879
Attributable to owner of the Parent Company	- 36 912	- 22 721	- 31 800	- 17 614	- 10 398	- 24 584
Attributable to non-controlling interests	39	- 3 949	228	- 3 663	- 3 186	705

Operating segments, Vattenfall Group

Amounts in SEK million	Q2 2016	Q2 2015	Q1-Q2 2016	Q1-Q2 2015	Full year 2015	Last 12 months
External net sales						
Customers & Solutions	14 202	18 502	34 862	44 819	84 905	74 948
Power Generation	11 103	7 161 ³	24 802	13 816 ³	35 783 ³	46 769
Wind	877	846	2 180	2 082	4 267	4 365
Heat	2 936	3 167	7 968	8 331	14 356	13 993
Distribution	3 488	3 631	7 722	7 486	15 355	15 591
- of which, Distribution Germany	1 211	1 530	2 372	2 756	6 018	5 634
- of which, Distribution Sweden	2 277	2 101	5 350	4 730	9 337	9 957
Other ¹	51	82	110	104	178	184
Eliminations ²	- 2 610	- 2 438	- 5 978	- 6 369	- 11 268	- 10 877
Total continuing operations	30 047	30 951	71 666	70 269	143 576	144 973
Discontinued operations	4 435	5 164	8 745	11 223	20 934	18 456
Total	34 482	36 115	80 411	81 492	164 510	163 429
Internal net sales						
Customers & Solutions	111	396	632	819	2 618	2 431
Power Generation	9 653	9 061 ³	24 735	27 478 ³	55 860 ³	53 117
Wind	391	533	1 077	1 143	2 502	2 436
Heat	2 552	2 637 ³	5 711	6 123 ³	12 989 ³	12 577
Distribution	998	1 054	2 190	2 257	4 559	4 492
- of which, Distribution Germany	899	941	1 985	2 023	4 012	3 974
- of which, Distribution Sweden	99	113	205	234	547	518
Other ¹	1 397	1 294	2 641	2 529	5 183	5 295
Eliminations	- 15 102	- 14 975 ³	- 36 986	- 40 349 ³	- 83 711 ³	- 80 348
Total continuing operations	—	—	—	—	—	—
Discontinued operations	—	—	—	—	—	—
Total	—	—	—	—	—	—
Total net sales						
Customers & Solutions	14 313	18 898	35 494	45 638	87 523	77 379
Power Generation	20 756	16 222 ³	49 537	41 294 ³	91 643 ³	99 886
Wind	1 268	1 379	3 257	3 225	6 769	6 801
Heat	5 488	5 804 ³	13 679	14 454 ³	27 345 ³	26 570
Distribution	4 486	4 685	9 912	9 743	19 914	20 083
- of which, Distribution Germany	2 110	2 471	4 357	4 779	10 030	9 608
- of which, Distribution Sweden	2 376	2 214	5 555	4 964	9 884	10 475
Other ¹	1 448	1 376	2 751	2 633	5 361	5 479
Eliminations	- 17 712	- 17 413 ³	- 42 964	- 46 718 ³	- 94 979 ³	- 91 225
Total continuing operations	30 047	30 951	71 666	70 269	143 576	144 973
Discontinued operations	4 435	5 164	8 745	11 223	20 934	18 456
Total	34 482	36 115	80 411	81 492	164 510	163 429

Operating segments, Vattenfall Group cont.

Amounts in SEK million	Q2 2016	Q2 2015	Q1-Q2 2016	Q1-Q2 2015	Full year 2015	Last 12 months
<u>Operating profit before depreciation, amortisation and impairment losses (EBITDA)</u>						
Customers & Solutions	628	144	1 597	1 056	1 657	2 198
Power Generation	- 410	2 350 ³	3 480	7 687 ³	12 754 ³	8 547
Wind	828	906	2 361	2 258	4 282	4 385
Heat	1 070	1 082 ³	4 125	3 866 ³	5 632 ³	5 891
Distribution	1 555	1 793	4 127	3 942	8 143	8 328
- of which, Distribution Germany	275	636	789	1 202	2 649	2 236
- of which, Distribution Sweden	1 280	1 157	3 338	2 740	5 494	6 092
Other¹	620	- 1 014	2 442	- 1 565	- 1 831	2 176
Eliminations	- 17	- 50	- 122	- 185	- 33	30
Total continuing operations	4 274	5 211	18 010	17 059	30 604	31 555
Discontinued operations	- 241	- 2 359	528	- 688	2 150	3 366
Total	4 033	2 852	18 538	16 371	32 754	34 921
<u>Underlying operating profit before depreciation, amortisation and impairment losses</u>						
Customers & Solutions	636	680	1 621	1 615	2 271	2 277
Power Generation	3 228	3 951 ³	6 870	8 565 ³	15 822 ³	14 127
Wind	712	905	2 222	2 244	4 621	4 599
Heat	1 047	1 088 ³	4 139	3 791 ³	5 689 ³	6 037
Distribution	1 559	1 803	4 133	3 965	8 189	8 357
- of which, Distribution Germany	279	645	796	1 222	2 683	2 257
- of which, Distribution Sweden	1 280	1 158	3 337	2 743	5 506	6 100
Other¹	130	- 555	265	- 1 110	- 1 330	45
Eliminations	- 17	- 50	- 122	- 185	- 33	30
Total continuing operations	7 295	7 822	19 128	18 885	35 229	35 472
Discontinued operations	289	234	1 077	1 930	4 775	3 922
Total	7 584	8 056	20 205	20 815	40 004	39 394

Operating segments, Vattenfall Group cont.

Amounts in SEK million	Q2 2016	Q2 2015	Q1-Q2 2016	Q1-Q2 2015	Full year 2015	Last 12 months
Operating profit (EBIT)						
Customers & Solutions	374	- 87	1 114	618	775	1 271
Power Generation	- 4 410	- 15 658 ³	- 1 256	- 11 326 ³	- 7 699 ³	2 371
Wind	- 122	111	608	727	931	812
Heat	- 5 472	- 3 880 ³	- 3 381	- 2 122 ³	- 2 555 ³	- 3 814
Distribution	861	1 115	2 748	2 597	5 419	5 570
- of which, Distribution Germany	80	437	401	807	1 848	1 442
- of which, Distribution Sweden	781	678	2 347	1 790	3 571	4 128
Other¹	514	- 667	2 216	- 1 359	- 1 907	1 668
Eliminations	- 17	- 50	- 122	- 185	- 33	30
Operating profit (EBIT) continuing operations	- 8 272	- 19 116	1 927	- 11 050	- 5 069	7 908
Discontinued operations	- 22 343	- 18 929	- 22 531	- 18 608	- 17 898	- 21 821
Operating profit (EBIT)	- 30 615	- 38 045	- 20 604	- 29 658	- 22 967	- 13 913
Financial income and expenses	- 999	- 1 401	- 2 703	- 2 945	- 5 225	- 4 983
Profit before tax	- 31 614	- 39 446	- 23 307	- 32 603	- 28 192	- 18 896
Underlying operating profit						
Customers & Solutions	392	449	1 148	1 177	1 390	1 361
Power Generation	2 497	2 943 ³	5 404	6 552 ³	12 376 ³	11 228
Wind	- 108	152	597	754	1 469	1 312
Heat	49	136 ³	2 177	1 918 ³	1 759 ³	2 018
Distribution	864	1 125	2 754	2 620	5 465	5 599
- of which, Distribution Germany	83	447	408	826	1 881	1 463
- of which, Distribution Sweden	781	678	2 346	1 794	3 584	4 136
Other¹	24	- 699	43	- 1 394	- 1 897	- 460
Eliminations	- 17	- 50	- 122	- 185	- 33	30
Underlying operating profit continuing operations	3 701	4 056	12 001	11 442	20 529	21 088
Discontinued operations	- 794	- 1 090	- 957	- 739	12	- 206
Underlying operating profit	2 907	2 966	11 044	10 703	20 541	20 882

1) "Other" pertains mainly to all Staff functions, including Treasury and Shared Service Centres.

2) For external net sales, eliminations pertain to sales to the Nordic electricity exchange.

3) The value for 2015 has been recalculated compared with information previously published in Vattenfall's 2015 interim reports and 2015 Annual and Sustainability Report. This is because the lignite operations have been divested and are reported as a discontinued operation in accordance with IFRS 5.

Consolidated balance sheet

Total Vattenfall, amounts in SEK million	30 June 2016	30 June 2015	31 Dec. 2015
Assets			
Non-current assets			
Intangible assets: non-current	16 803	18 628	17 564
Property, plant and equipment	206 954	237 746	244 563
Investment property	150	434	388
Biological assets	35	29	35
Participations in associated companies and joint arrangements	7 263	7 770	7 002
Other shares and participations	273	295	273
Share in the Swedish Nuclear Waste Fund	35 271	33 248	34 172
Derivative assets	19 020	15 604	20 220
Current tax assets, non-current	241	453	222
Prepaid expenses	24	108	103
Deferred tax assets	14 074	17 290	9 265
Other non-current receivables	5 810	8 266	9 484
Total non-current assets	305 918	339 871	343 291
Current assets			
Inventories	14 632	16 149	16 592
Biological assets	16	15	19
Intangible assets: current	320	908	1 091
Trade receivables and other receivables	22 447	27 395	26 193
Advance payments paid	3 538	1 410	3 607
Derivative assets	8 602	10 957	14 067
Prepaid expenses and accrued income	7 372	7 740	5 936
Current tax assets	1 576	2 194	3 285
Short-term investments	25 559	34 006	31 905
Cash and cash equivalents	5 399	20 006	12 351
Assets held for sale	21 572	2 898	3 980
Total current assets	111 033	123 678	119 026
Total assets	416 951	463 549	462 317
Equity and liabilities			
Equity			
Attributable to owner of the Parent Company	72 955	97 646	103 984
Attributable to non-controlling interests	14 758	10 657	11 972
Total equity	87 713	108 303	115 956
Non-current liabilities			
Hybrid Capital	18 803	15 192	18 546
Other interest-bearing liabilities	64 835	68 431	68 179
Pension provisions	42 339	41 986	38 919
Other interest-bearing provisions	80 113	90 496	93 042
Derivative liabilities	11 883	9 197	10 579
Deferred tax liabilities	20 732	27 202	22 970
Other noninterest-bearing liabilities	6 339	5 612	6 273
Total non-current liabilities	245 044	258 116	258 508
Current liabilities			
Trade payables and other liabilities	19 270	22 392	23 958
Advance payments received	1 819	1 261	2 293
Derivative liabilities	9 312	4 836	8 023
Accrued expenses and deferred income	12 786	15 989	19 969
Current tax liabilities	2 100	849	306
Other interest-bearing liabilities	12 996	44 539	23 860
Interest-bearing provisions	4 380	7 054	6 302
Liabilities associated with assets held for sale	21 531	210	3 142
Total current liabilities	84 194	97 130	87 853
Total equity and liabilities	416 951	463 549	462 317

Consolidated balance sheet, cont.

Supplementary information

Amounts in SEK million ¹	30 June 2016	30 June 2015	31 Dec. 2015
Calculation of capital employed			
Intangible assets: current and non-current	17 123	19 536	18 655
Property, plant and equipment	206 954	237 746	244 563
Participations in associated companies and joint arrangements	7 263	7 770	7 002
Deferred and current tax assets	15 650	19 484	12 550
Non-current noninterest-bearing receivables	4 846	7 101	8 309
Inventories	14 632	16 149	16 592
Trade receivables and other receivables	22 447	27 395	26 193
Prepaid expenses and accrued income	7 372	7 740	5 936
Unavailable liquidity	6 870	6 155	6 813
Other	628	1 019	719
Total assets excl. financial assets	303 785	350 095	347 332
Deferred and current tax liabilities	- 22 832	- 28 051	- 23 276
Other noninterest-bearing liabilities	- 6 339	- 5 612	- 6 273
Trade payable and other liabilities	- 19 270	- 22 392	- 23 958
Accrued expenses and deferred income	- 12 786	- 15 989	- 19 969
Other	- 49	—	- 77
Total noninterest-bearing liabilities	- 61 276	- 72 044	- 73 553
Other interest-bearing provisions not related to adjusted net debt ²	- 8 448	- 8 394	- 9 188
Capital employed³	234 061	269 657	264 591
Capital employed, average	251 859	287 377	279 435
Calculation of net debt			
Hybrid Capital	- 18 803	- 15 192	- 18 546
Bond issues, commercial paper and liabilities to credit institutions	- 58 269	- 70 902	- 68 898
Present value of liabilities pertaining to acquisitions of Group companies	—	- 19 087	—
Liabilities to associated companies	- 2 741	- 2 834	- 2 751
Liabilities to owners of non-controlling interests	- 10 120	- 12 367	- 13 041
Other liabilities	- 6 701	- 7 780	- 7 349
Total interest-bearing liabilities	- 96 634	- 128 162	- 110 585
Cash and cash equivalents	5 399	20 006	12 351
Short-term investments	25 559	34 006	31 905
Loans to owners of non-controlling interests in foreign Group companies	2 022	1 311	2 128
Net debt³	- 63 654	- 72 839	- 64 201
Calculation of adjusted gross debt and net debt			
Total interest-bearing liabilities	- 96 634	- 128 162	- 110 585
50% of Hybrid Capital ⁴	9 402	7 596	9 273
Present value of pension obligations	- 42 339	- 41 986	- 38 919
Provisions for mining, gas and wind operations and other environment-related provisions	- 4 179	- 18 046	- 19 099
Provisions for nuclear power (net) ⁵	- 33 002	- 33 522	- 32 944
Margin calls received	4 719	5 566	5 307
Liabilities to owners of non-controlling interests due to consortium agreements	8 997	11 617	11 939
Adjusted gross debt	- 153 036	- 196 937	- 175 028
Reported cash and cash equivalents and short-term investments	30 958	54 012	44 256
Unavailable liquidity	- 6 870	- 6 155	- 6 813
Adjusted cash and cash equivalents and short-term investments	24 088	47 857	37 443
Adjusted net debt³	- 128 948	- 149 080	- 137 585

- 1) The amounts as per 30 June 2016 pertain to continuing operations, and the amounts as per 30 June 2015 and 31 December 2015 pertain to Total Vattenfall.
- 2) Includes personnel-related provisions for non-pension purposes, provisions for tax and legal disputes and certain other provisions.
- 3) See Definitions and calculations of key ratios for definitions of Alternative Performance Measures.
- 4) 50% of Hybrid Capital is treated as equity by the rating agencies, which thereby reduces adjusted net debt.
- 5) The calculation is based on Vattenfall's share of ownership in the respective nuclear power plants, less Vattenfall's share in the Swedish Nuclear Waste Fund and liabilities to associated companies. Vattenfall has the following ownership interests in the respective plants: Forsmark 66%, Ringhals 70.4%, Brokdorf 20%, Brunsbüttel 66.7%, Krümmel 50% and Stade 33.3%. (According to a special agreement, Vattenfall is responsible for 100% of the provisions for Ringhals.)

Consolidated statement of cash flows

(Reporting of figures and comments pertains to Total Vattenfall)

Total Vattenfall, amounts in SEK million	Q2 2016	Q2 2015	Q1-Q2 2016	Q1-Q2 2015	Full year 2015	Last 12 months
Operating activities						
Profit before tax	- 31 614	- 39 446	- 23 306	- 32 603	- 28 192	- 18 895
Reversal of depreciation, amortisation and impairment losses	34 648	40 899	39 141	46 032	55 724	48 833
Tax paid	1 801	- 1 069	1 646	- 1 036	- 1 340	1 342
Capital gains/losses, net	- 246	130	- 1 939	65	143	- 1 861
Other, incl. non-cash items	1 857	3 640	- 14	1 492	2 674	1 168
Funds from operations (FFO)	6 446	4 154	15 528	13 950	29 009	30 587
Changes in inventories	- 950	- 1 302	521	690	- 553	- 722
Changes in operating receivables	9 714	9 330	- 2 832	1 671	4 074	- 429
Changes in operating liabilities	- 2 741	- 4 033	- 1 710	- 2 392	5 775	6 457
Other changes	- 2 611	1 568	- 4 307	2 553	2 629	- 4 231
Cash flow from changes in operating assets and operating liabilities	3 412	5 563	- 8 328	2 522	11 925	1 075
Cash flow from operating activities	9 858	9 717	7 200	16 472	40 934	31 662
Investing activities						
Acquisitions in Group companies	—	—	—	- 5	- 5	—
Investments in associated companies and other shares and participations	86	150	237	162	272	347
Other investments in non-current assets	- 5 079	- 6 876	- 8 989	- 12 440	- 28 993	- 25 542
Total investments	- 4 993	- 6 726	- 8 752	- 12 283	- 28 726	- 25 195
Divestments	984	1 479	4 020	2 232	2 814	4 602
Cash and cash equivalents in divested companies	- 82	- 146	- 82	- 530	- 563	- 115
Cash flow from investing activities	- 4 091	- 5 393	- 4 814	- 10 581	- 26 475	- 20 708
Cash flow before financing activities	5 767	4 324	2 386	5 891	14 459	10 954
Financing activities						
Changes in short-term investments	- 2 910	11 336	6 905	- 1 686	235	8 826
Changes in loans to owners of non-controlling interests in foreign Group companies	25	- 8	158	51	- 783	- 676
Loans raised ¹	- 1 659	- 344 ²	3 684	4 148 ²	5 088	4 624
Amortisation of debt pertaining to acquisitions of Group companies	—	—	—	—	- 19 152	- 19 152
Amortisation of other debt	- 3 740	- 2 545 ²	- 16 675	- 7 754 ²	- 10 223	- 19 144
Divestment of shares in Group companies to owners of non-controlling interests	- 11	—	2 825	—	—	2 825
Effect of early termination of swaps related to financing activities	1 741	—	2 675	—	1 690	4 365
Redemption of Hybrid Capital	—	- 4 658	—	- 9 172	- 9 172	—
Issue of Hybrid Capital	—	—	—	15 152	18 636	3 484
Dividends paid to owners	- 503	- 57	- 503	- 57	- 333	- 779
Contribution from owners of non-controlling interests	844	378	996	1 214	1 973	1 755
Cash flow from financing activities	- 6 213	4 102	65	1 896	- 12 041	- 13 872
Cash flow for the period	- 446	8 426	2 451	7 787	2 418	- 2 918

Consolidated statement of cash flows, cont.

(Reporting of figures and comments pertains to Total Vattenfall)

Total Vattenfall, amounts in SEK million	Q2 2016	Q2 2015	Q1-Q2 2016	Q1-Q2 2015	Full year 2015	Last 12 months
Cash and cash equivalents						
Cash and cash equivalents at start of period	15 254	11 606	12 351	12 283	12 283	20 006
Cash and cash equivalents included in assets held for sale	- 9 424	—	- 9 424	—	- 2 263	- 11 687
Cash flow for the period	- 446	8 426	2 451	7 787	2 418	- 2 918
Translation differences	15	- 26	21	- 64	- 87	- 2
Cash and cash equivalents at end of period	5 399	20 006	5 399	20 006	12 351	5 399
Supplementary information						
Cash flow before financing activities	5 767	4 324	2 386	5 891	14 459	10 954
Financing activities						
Divestment of shares in Group companies to owners of non-controlling interests	- 11	—	2 825	—	—	2 825
Effects from terminating swaps related to financing activities	1 741	—	2 675	—	1 690	4 365
Dividends paid to owners	- 503	- 57	- 503	- 57	- 333	- 779
Contribution from owners of non-controlling interests	844	378	996	1 214	1 973	1 755
Cash flow after dividend	7 838	4 645	8 379	7 048	17 789	19 120
Analysis of change in net debt						
Net debt at start of period	- 60 729	- 78 825	- 64 201	- 79 473	- 79 473	- 72 839
Cash flow after dividend	7 838	4 645	8 379	7 048	17 789	19 120
Changes as a result of valuation at fair value	- 413	1 362	- 1 475	541	274	- 1 742
Changes in interest-bearing liabilities for leasing	4	—	4	3	3	4
Interest-bearing liabilities/short-term investments acquired/divested	—	10	4	35	35	4
Changes in liabilities pertaining to acquisitions of Group companies, discounting effects	—	- 80	—	- 160	- 160	—
Cash and cash equivalents included in assets held for sale	- 9 424	—	- 9 424	—	- 2 263	- 11 687
Translation differences on net debt	- 930	49	- 39	- 833	- 406	388
Reclassification	—	—	3 098	—	—	3 098
Net debt at end of period	- 63 654	- 72 839	- 63 654	- 72 839	- 64 201	- 63 654
Cash flow from operating activities	9 858	9 717	7 200	16 472	40 934	31 662
Maintenance investments	- 2 969	- 3 499	- 5 308	- 6 249	- 15 921	- 14 980
Free cash flow³	6 889	6 218	1 892	10 223	25 013	16 682

1) Short-term borrowings in which the duration is three months or shorter are reported net.

2) The amount has been recalculated compared with previously published information in Vattenfall's 2015 interim reports as a result of the fact that short-term borrowings in which the duration is three months or shorter are reported net.

3) See Definitions and calculations of key ratios for definitions of Alternative Performance Measures.

Consolidated statement of changes in equity

(Reporting of figures and comments pertains to Total Vattenfall)

	30 June 2016			30 June 2015			31 Dec. 2015		
	Attributable to owner of the Parent Company	Attributable to non-controlling interests	Total equity	Attributable to owner of the Parent Company	Attributable to non-controlling interests	Total equity	Attributable to owner of the Parent Company	Attributable to non-controlling interests	Total equity
Total Vattenfall, amounts in SEK million									
Balance brought forward	103 984	11 972	115 956	115 260	13 202	128 462	115 260	13 202	128 462
Profit for the period	- 22 236	194	- 22 042	- 20 317	- 3 508	- 23 825	- 16 672	- 3 094	- 19 766
Cash flow hedges - changes in fair value	- 6 865	15	- 6 850	3 608	9	3 617	11 335	19	11 354
Cash flow hedges - dissolved against income statement	- 3 234	—	- 3 234	- 2 852	1	- 2 851	- 5 324	1	- 5 323
Cash flow hedges - transferred to cost of hedged item	- 5	- 2	- 7	16	8	24	- 4	1	- 3
Hedging of net investments in foreign operations	205	—	205	1 154	—	1 154	1 709	—	1 709
Translation differences	408	24	432	- 846	- 158	- 1 004	- 1 746	- 192	- 1 938
Remeasurement pertaining to defined benefit obligations	- 3 605	—	- 3 605	2 599	—	2 599	2 742	125	2 867
Income tax relating to other comprehensive income	3 532	- 3	3 529	- 976	- 15	- 991	- 2 438	- 46	- 2 484
Total other comprehensive income for the period	- 9 564	34	- 9 530	2 703	- 155	2 548	6 274	- 92	6 182
Total comprehensive income for the period	- 31 800	228	- 31 572	- 17 614	- 3 663	- 21 277	- 10 398	- 3 186	- 13 584
Dividends paid to owners	—	- 503	- 503	—	- 57	- 57	—	- 333	- 333
Group contributions from(+)/to(-) owners of non-controlling interests	—	- 206	- 206	—	—	—	—	355	355
Changes in ownership in Group companies on divestments of shares to owners of non-controlling interests	895	2 082	2 977	—	—	—	—	—	—
Additional purchase price pertaining to previous share purchase	—	—	—	—	—	—	- 878	—	- 878
Contribution from minority interest	—	996	996	—	1 214	1 214	—	1 973	1 973
Other changes in ownership	—	- 28	- 28	—	- 39	- 39	—	- 39	- 39
Other changes	- 124	217	93	—	—	—	—	—	—
Total transactions with equity holders	771	2 558	3 329	—	1 118	1 118	- 878	1 956	1 078
Balance carried forward	72 955	14 758	87 713	97 646	10 657	108 303	103 984	11 972	115 956
- Of which, Reserve for hedges	1 889	17	1 906	5 565	4	5 569	9 460	7	9 467

Key ratios, Vattenfall Group

In % unless otherwise stated. (x) means times	Q2 2016	Q2 2015	Q1-Q2 2016	Q1-Q2 2015	Full year 2015	Last 12 months
Operating margin, continuing operations	- 27.5	- 61.8	2.7	- 15.7	- 3.5	5.5
Operating margin, continuing operations ¹	12.3	13.1	16.7	16.3	14.3	14.5
Pre-tax profit margin, continuing operations	- 30.3	- 65.9	- 0.7	- 19.5	- 6.9	2.3
Pre-tax profit margin, continuing operations ¹	9.5	9.0	13.4	12.5	11.0	11.4
Return on equity, total Vattenfall	- 20.6 ²	- 32.6 ²	- 20.6 ²	- 32.6 ²	- 16.8	- 20.6
Return on capital employed, continuing operations	3.1 ^{2,5}	N/A ^{2,4}	3.1 ^{2,5}	N/A ^{2,4}	- 1.8	3.1
Return on capital employed, total Vattenfall	- 5.5 ^{2,5}	- 14.6 ²	- 5.5 ^{2,5}	- 14.6 ²	- 8.2	- 5.5
Return on capital employed, continuing operations ¹	8.4 ^{2,5}	N/A ^{2,4}	8.4 ^{2,5}	N/A ^{2,4}	7.3	8.4
Return on capital employed, total Vattenfall ¹	8.3 ^{2,5}	7.5 ²	8.3 ^{2,5}	7.5 ²	7.4	8.3
EBIT interest cover, continuing operations, (x)	2.2 ²	N/A ^{2,4}	2.2 ²	N/A ^{2,4}	- 0.8	2.2
EBIT interest cover, continuing operations, (x) ¹	5.2 ²	N/A ^{2,4}	5.2 ²	N/A ^{2,4}	4.8	5.2
FFO interest cover, continuing operations, (x)	7.5 ²	N/A ^{2,4}	7.5 ²	N/A ^{2,4}	6.8	7.5
FFO interest cover, net, continuing operations, (x)	12.6 ²	N/A ^{2,4}	12.6 ²	N/A ^{2,4}	9.8	12.6
Cash flow interest cover after maintenance investments, continuing operations, (x)	8.1 ²	N/A ^{2,4}	8.1 ²	N/A ^{2,4}	9.1	8.1
FFO/gross debt, continuing operations	29.8 ²	N/A ^{2,4}	29.8 ²	N/A ^{2,4}	24.2	29.8
FFO/gross debt, total Vattenfall	31.7 ^{2,3}	24.5 ²	31.7 ^{2,3}	24.5 ²	26.2	31.7
FFO/net debt, continuing operations	45.3 ²	N/A ^{2,4}	45.3 ²	N/A ^{2,4}	41.8	45.3
FFO/net debt, total Vattenfall	48.1 ^{2,3}	43.2 ²	48.1 ^{2,3}	43.2 ²	45.2	48.1
FFO/adjusted net debt, continuing operations	22.4 ²	N/A ^{2,4}	22.4 ²	N/A ^{2,4}	19.5	22.4
FFO/adjusted net debt, total Vattenfall	23.7 ^{2,3}	21.1 ²	23.7 ^{2,3}	21.1 ²	21.1	23.7
EBITDA/net financial items, continuing operations, (x)	10.2	4.9	13.1	8.8	10.1	12.7
EBITDA/net financial items, continuing operations, (x) ¹	17.4	7.3	13.9	9.8	11.6	14.3
Equity/total assets, total Vattenfall	21.0	23.4	21.0	23.4	25.1	21.0
Gross debt/equity, total Vattenfall	110.2	118.3	110.2	118.3	95.4	110.2
Net debt/equity, total Vattenfall	72.6	67.3	72.6	67.3	55.4	72.6
Gross debt/gross debt plus equity, total Vattenfall	52.4	54.2	52.4	54.2	48.8	52.4
Net debt/net debt plus equity, total Vattenfall	42.1	40.2	42.1	40.2	35.6	42.1
Net debt/EBITDA, continuing operations, (x)	2.0 ²	N/A ^{2,4}	2.0 ²	N/A ^{2,4}	2.1	2.0
Net debt/EBITDA, total Vattenfall, (x)	1.8 ^{2,3}	2.0 ²	1.8 ^{2,3}	2.0 ²	2.0	1.8
Adjusted net debt/EBITDA, continuing operations, (x)	4.1 ²	N/A ^{2,4}	4.1 ²	N/A ^{2,4}	4.5	4.1
Adjusted net debt/EBITDA, total Vattenfall, (x)	3.7 ^{2,3}	4.0 ²	3.7 ^{2,3}	4.0 ²	4.2	3.7

1) Based on Underlying operating profit.

2) Last 12-month values.

3) The lignite operations are classified as assets held for sale on the balance sheet as per 30 June 2016. As a result, the lignite operations are excluded from balance sheet items included in the calculations of key ratios.

4) This key ratio has not been calculated, as it is based on last 12-month values, which have not been recalculated for the continuing operations for 2014.

5) The key ratio is based on average capital employed. The lignite operations are classified as assets held for sale on the balance sheet as per 30 June 2016, but not as per 30 June 2015, which entails that average capital employed includes the lignite operations as per 30 June 2015 but not as per 30 June 2016.

Quarterly information, Vattenfall Group

Amounts in SEK million	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015
Income statement						
Continuing operations						
Net sales	30 047	41 619	42 368	30 939	30 951	39 318
Cost of products sold	- 34 565	- 29 032	- 33 705	- 23 651	- 44 347	- 27 518
Other operating income and expenses	- 3 877	- 2 553	- 4 588	- 4 823	- 5 620	- 3 897
Participations in the results of associated companies	123	164	- 434	- 125	- 100	163
Operating profit before depreciation, amortisation and impairment losses (EBITDA)	4 274	13 736	7 730	5 816	5 211	11 847
Operating profit (EBIT)	- 8 272	10 198	3 641	2 340	- 19 116	8 067
Underlying operating profit	3 701	8 299	6 407	2 681	4 056	7 386
Financial items, net	- 843	- 1 573	- 1 128	- 973	- 1 270	- 1 404
Profit before tax	- 9 115	8 625	2 514	1 366	- 20 386	6 662
Profit for the period from continuing operations	- 5 818	6 820	4 550	41	- 14 625	4 847
Profit for the period from discontinued operation, net after tax	- 22 826	- 218	- 2 090	1 559	- 14 187	140
Profit for the period	- 28 644	6 602	2 460	1 600	- 28 812	4 987
- of which, attributable to owner of the Parent Company	- 28 508	6 272	2 243	1 403	- 24 996	4 679
- of which, attributable to non-controlling interests	- 136	330	217	197	- 3 816	308
Balance sheet						
Non-current assets	305 918	344 481	343 291	348 656	339 871	370 318
Short-term investments	25 559	22 171	31 905	30 867	34 006	45 634
Cash and cash equivalents	5 399	15 254	12 351	12 497	20 006	11 606
Other current assets	80 075	80 282	74 770	65 338	69 666	84 827
Total assets	416 951	462 188	462 317	457 358	463 549	512 385
Equity	87 713	124 368	115 956	114 440	108 303	134 678
- of which, attributable to owner of the Parent Company	72 955	109 756	103 984	103 043	97 646	120 367
- of which, attributable to non-controlling interests	14 758	14 612	11 972	11 397	10 657	14 311
Hybrid Capital	18 803	18 448	18 546	15 387	15 192	19 979
Other interest-bearing liabilities	77 831	81 710	92 039	95 659	112 970	117 400
Pension provisions	42 339	38 893	38 919	42 320	41 986	44 793
Other interest-bearing provisions	84 493	99 834	99 344	99 663	97 550	92 761
Deferred tax liabilities	20 732	24 109	22 970	26 463	27 202	27 454
Other noninterest-bearing liabilities	85 040	74 826	74 543	63 426	60 346	75 320
Total equity and liabilities	416 951	462 188	462 317	457 358	463 549	512 385
Capital employed	234 061	269 036	264 591	267 116	269 657	298 629
Net debt	- 63 654	- 60 729	- 64 201	- 65 405	- 72 839	- 78 825
Cash flow						
Funds from operations (FFO)	6 446	9 082	9 362	5 698	4 154	9 795
Cash flow from changes in operating assets and operating liabilities	3 412	- 11 740	233	9 170	5 563	- 3 042
Cash flow from operating activities	9 858	- 2 658	9 595	14 868	9 717	6 753
Cash flow from investing activities	- 4 091	- 723	- 8 011	- 7 883	- 5 393	- 5 187
Cash flow before financing activities	5 767	- 3 381	1 584	6 985	4 324	1 566
Changes in short-term investments	- 2 910	9 814	- 1 581	3 501	11 336	- 13 022
Loans raised/Amortisation of debt, net, etc.	- 2 800	- 3 536	2 384	- 17 965	- 7 177	10 816
Dividends paid to owners	- 503	—	- 180	- 96	- 57	—
Cash flow from financing activities	- 6 213	6 278	623	- 14 560	4 102	- 2 206
Cash flow for the period	- 446	2 897	2 207	- 7 575	8 426	- 640
Free cash flow	6 889	- 4 997	4 270	10 520	6 218	4 003

Quarterly information, Vattenfall Group, cont.

In % unless otherwise stated. (x) means times	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015
Key ratios						
Return on equity, total Vattenfall ¹	- 20.6	- 15.8	- 16.8	- 14.8	- 32.6	- 10.1
Return on capital employed, continuing operations ¹	3.1 ⁵	- 1.0	- 1.8	N/A ⁴	N/A ⁴	N/A ⁴
Return on capital employed, total Vattenfall ¹	- 5.5 ⁵	- 7.5 ³	- 8.2	- 7.1	- 14.6	- 1.9
Return on capital employed, continuing operations ^{1, 2}	8.4 ⁵	7.6	7.3	N/A ⁴	N/A ⁴	N/A ⁴
Return on capital employed, total Vattenfall ^{1, 2}	8.3 ⁵	7.4 ³	7.4	8.1	7.5	7.6
EBIT interest cover, continuing operations (x) ¹	2.2	- 0.2	- 0.8	N/A ⁴	N/A ⁴	N/A ⁴
EBIT interest cover, continuing operations, (x) ^{1, 2}	5.2	4.7	4.8	N/A ⁴	N/A ⁴	N/A ⁴
FFO/gross debt, continuing operations ¹	29.8	27.0	24.2	N/A ⁴	N/A ⁴	N/A ⁴
FFO/gross debt, total Vattenfall ¹	31.7 ³	28.3 ³	26.2	28.9	24.5	22.7
FFO/net debt, continuing operations ¹	45.3	44.5	41.8	N/A ⁴	N/A ⁴	N/A ⁴
FFO/net debt, total Vattenfall ¹	48.1 ³	46.6 ³	45.2	49.1	43.2	39.5
FFO/adjusted net debt, continuing operations ¹	22.4	19.7	19.5	N/A ⁴	N/A ⁴	N/A ⁴
FFO/adjusted net debt, total Vattenfall ¹	23.7 ³	20.6 ³	21.1	22.5	21.1	20.7
Equity/assets ratio, total Vattenfall	21.0	26.9	25.1	25.0	23.4	26.3
Gross debt/equity, total Vattenfall	110.2	80.5	95.4	97.0	118.3	102.0
Net debt/equity, total Vattenfall	72.6	48.8	55.4	57.2	67.3	58.5
Net debt/net debt plus equity, total Vattenfall	42.1	32.8	35.6	36.4	40.2	36.9
Net debt/EBITDA, continuing operations, (x) ¹	2.0	1.9	2.1	N/A ⁴	N/A ⁴	N/A ⁴
Net debt/EBITDA, total Vattenfall, (x) ¹	1.8 ³	1.8 ³	2.0	2.7	2.0	2.1
Adjusted net debt/EBITDA, continuing operations, (x) ¹	4.1	4.2	4.5	N/A ⁴	N/A ⁴	N/A ⁴
Adjusted net debt/EBITDA, total Vattenfall, (x) ¹	3.7 ³	4.1 ³	4.2	4.0	4.0	4.0

1) Last 12-month values.

2) Based on Underlying operating profit.

3) The lignite operations are classified as assets held for sale on the balance sheet as per 30 June 2016. As a result, the lignite operations are excluded from balance sheet items included in the calculations of key ratios.

4) This key ratio has not been calculated, as it is based on last 12-month values, which have not been recalculated for the continuing operations for 2014.

5) The key ratio is based on average capital employed. The lignite operations are classified as assets held for sale on the balance sheet as per 30 June 2016, but not as per 30 June 2015, which entails that average capital employed includes the lignite operations as per 30 June 2015 but not as per 30 June 2016.

Note 1 Accounting policies, risks and uncertainties

Accounting policies

The consolidated accounts for 2016 have been prepared, as for the 2015 year-end accounts, in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Commission for application within the EU, and the Swedish Annual Accounts Act. This interim report for the Group has been prepared in accordance with IAS 34 – “Interim Financial Reporting”, and the Swedish Annual Accounts Act. The accounting policies and calculation methods applied in this interim report are the same as those described in Note 3 to the consolidated accounts, Accounting policies in Vattenfall’s 2015 Annual and Sustainability Report. As described in the note, the amended IFRSs endorsed by the EU for application in the 2016 financial year have no significant effect on Vattenfall’s financial statements.

Risks and uncertainties

For a description of risks, uncertainties and risk management, please refer to Vattenfall’s 2015 Annual and Sustainability Report, pages 70-78. Apart from the information provided under important events in this report, no other material changes have taken place since publication of the 2015 Annual and Sustainability Report.

Other

Significant related-party transactions are described in Note 55 to the consolidated accounts in Vattenfall’s 2015 Annual and Sustainability Report. No material changes have taken place in relations or transactions with related parties compared with the description in the 2015 Annual and Sustainability Report.

Note 2 Exchange rates

Key exchange rates applied in the accounts of the Vattenfall Group:

	Q2 2016	Q2 2015	Q1-Q2 2016	Q1-Q2 2015	Full year 2015
Average rate					
EUR	9.2774	9.2896	9.2813	9.3260	9.3414
DKK	1.2465	1.2447	1.2456	1.2504	1.2523
NOK	0.9963	1.0802	0.9869	1.0731	1.0403
PLN	2.1237	2.2621	2.1281	2.2468	2.2297
GBP	11.7060	12.8832	11.9460	12.7041	12.8325
USD	8.2406	8.4222	8.3608	8.2917	8.4004
Balance sheet date rate					
			30 June 2016	30 June 2015	31 Dec. 2015
EUR			9.4242	9.2150	9.1895
DKK			1.2668	1.2352	1.2314
NOK			1.0133	1.0482	0.9569
PLN			2.1244	2.1987	2.1552
GBP			11.4025	12.9533	12.5206
USD			8.4887	8.2358	8.4408

Note 3 Financial instruments by category and related effects on income

Financial instruments by category: Carrying amount and fair value

	30 June 2016		31 Dec. 2015	
	Carrying amount	Fair value	Carrying amount	Fair value
Total Vattenfall, amounts in SEK million ¹				
Financial assets at fair value through profit or loss	53 891	53 891	65 042	65 042
Loans and receivables	68 819	71 814	86 617	87 693
Available-for-sale financial assets	273	273	273	273
Financial liabilities at fair value through profit or loss	21 195	21 195	18 602	18 602
Other financial liabilities	117 680	123 417	141 436	145 986

1) For information of what is included in each respective category in the table above, please refer to Note 47 to the consolidated accounts, Financial instruments by category, offsetting of financial assets and liabilities, and financial instruments' effects on income in Vattenfall's 2015 Annual and Sustainability Report.

For assets and liabilities with a remaining maturity less than three months (e.g., cash and bank balances, trade receivables and other receivables and trade payables and other payables), fair value is considered to be equal to the carrying amount. For other shares and participations carried at cost, in the absence of fair value, cost is considered to be equal to the carrying amount.

Financial instruments that are measured at fair value on the balance sheet are described below according to the fair value hierarchy (levels), which in IFRS 13 is defined as:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). In Level 2 Vattenfall reports mainly commodity derivatives, currency-forward contracts and interest rate swaps

Level 3: Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs)

Financial assets and liabilities that are measured at fair value on the balance sheet at 30 June 2016

Total Vattenfall, amounts in SEK million	Level 1	Level 2	Level 3	Total
Assets				
Derivative assets	—	27 271	351	27 622
Short-term investments and cash equivalents	15 877	10 392	—	26 269
Total assets	15 877	37 663	351	53 891
Liabilities				
Derivative liabilities	—	20 677	518	21 195
Total liabilities	—	20 677	518	21 195

Financial assets and liabilities that are measured at fair value on the balance sheet at 31 December 2015

Total Vattenfall, amounts in SEK million	Level 1	Level 2	Level 3	Total
Assets				
Derivative assets	—	33 879	408	34 287
Short-term investments and cash equivalents	20 606	10 149	—	30 755
Total assets	20 606	44 028	408	65 042
Liabilities				
Derivative liabilities	—	17 164	1 438	18 602
Total liabilities	—	17 164	1 438	18 602

Changes in level 3 financial instruments

Financial instruments at fair value through profit or loss

	Derivative assets		Derivative liabilities	
	30 June 2016	31 Dec. 2015	30 June 2016	31 Dec. 2015
Total Vattenfall, amounts in SEK million				
Balance brought forward	408	650	1 438	670
Revaluations recognised in operating profit (EBIT)	- 66	- 232	- 941	795
Translation differences	9	- 10	21	- 27
Balance carried forward	351	408	518	1 438
Total revaluations for the period included in operating profit (EBIT) for assets and liabilities held on the balance sheet date	154	- 83	- 67	459

Sensitivity analysis for Level 3 contracts

For the determination of fair value of financial instruments, Vattenfall strives to use valuation techniques that maximise the use of observable market data where it is available and rely as little as possible on entity-specific estimates.

Entity-specific estimates are based on internal valuation models that are subject to a defined process of validation, approval and monitoring. In the first step the model is designed by the business. The valuation model is then independently reviewed and approved by Vattenfall's risk organisation. If deemed necessary, adjustments are required and implemented. Afterwards, Vattenfall's risk organisation continuously monitors whether the application of the method is still appropriate. This is made by usage of several back-testing tools. In order to reduce valuation risks, the application of the model can be restricted to a limited scope.

The level 3 contracts in this interim report are the same as in Vattenfall's 2015 Annual and Sustainability Report. For additional information please refer to Note 47 to the consolidated accounts, Financial instruments by category, offsetting of financial assets and liabilities, and financial instruments' effects on income, in Vattenfall's 2015 Annual and Sustainability Report. The accumulated net value of all level 3 contracts as per 30 June 2016 has been calculated at SEK -167 million (-1,030). A change of +/-5% would affect the total value by approximately SEK +/-9 million (+/-42).

Financial instruments: Effects on income by category

Net gains (+)/losses (-) and interest income and expenses for financial instruments recognised in the income statement:

	30 June 2016			31 Dec. 2015		
	Net gains/ losses ¹	Interest income	Interest expenses	Net gains/ losses ¹	Interest income	Interest expenses
Total Vattenfall, amounts in SEK million						
Derivative assets and derivative liabilities	- 359	109	- 662	3 940	116	- 76
Available-for-sale financial assets	24	—	—	15	—	—
Loans and trade receivables	- 45	596	—	- 241	1 546	—
Financial liabilities measured at amortised cost	- 1 353	—	- 1 190	1 000	—	- 3 306
Total	- 1 733	705	- 1 852	4 714	1 662	- 3 382

1) Exchange rate gains and losses are included in net gains/losses.

Note 4 Discontinued operations

In accordance with IFRS 5 – Non-Current Assets Held for Sale and Discontinued Operations, the lignite operations, which are being discontinued, are reported as a discontinued operation as from the second quarter of 2016. The lignite operations are thus reported on a separate line in the income statement, and comparison figures for 2015 have been recalculated in a corresponding manner. In the segment reporting, the parts of the Power Generation and Heat segments that pertain to the lignite operations have been reclassified as “Discontinued operations”, and the Power Generation and Heat operating segments have been recalculated for earlier periods so that they only include the continuing operations. On the balance sheet, the assets and liabilities in the lignite operations are reported as “assets/liabilities associated with assets held for sale”. In accordance with IFRS 5, the balance sheet has not been restated to reflect earlier periods. The Statement of cash flows has not been recalculated. Cash flow from the discontinued lignite operations is presented below in this note.

Earnings from discontinued operations

Amounts in SEK million	Q2 2016	Q2 2015	Q1-Q2 2016	Q1-Q2 2015	Full year 2015	Last 12 months
Net Sales	4 435	5 163	8 745	11 223	20 934	18 456
Expenses	- 5 273	- 24 092	- 9 770	- 29 831	- 38 831	- 18 770
Net financial items	- 157	- 131	- 287	- 270	- 449	- 466
Realised gains related to fair value hedges	37	—	37	—	—	—
Impairment loss recognised on the remeasurement to fair value less costs to sell	- 21 505	—	- 21 505	—	—	- 21 505
Profit before tax from discontinued operations	- 22 500	- 19 060	- 22 817	- 18 878	- 18 346	- 22 285
Income tax expense	- 326	4 873	- 227	4 831	3 768	- 1 290
Profit for the period from discontinued operations attributable to owners of the Parent Company	- 22 826	- 14 187	- 23 044	- 14 047	- 14 578	- 23 575

Amounts in SEK million	Q2 2016	Q2 2015	Q1-Q2 2016	Q1-Q2 2015	Full year 2015	Last 12 months
Operating profit (EBIT)	- 22 343	- 18 929	- 22 531	- 18 608	- 17 898	- 21 821
Items affecting comparability	21 549	17 839	21 574	17 869	17 910	21 615
Underlying operating profit	- 794	- 1 090	- 957	- 739	12	- 206

Cash flow from discontinued operations

Amounts in SEK million	Q2 2016	Q2 2015	Q1-Q2 2016	Q1-Q2 2015	Full year 2015	Last 12 months
Funds from operations (FFO)	433	- 86	945	1 380	2 197	1 762
Cash flow from operating activities	- 3 004	930	- 1 432	2 066	- 2 158	- 5 656
Cash flow from investing activities	- 714	- 811	- 1 101	- 1 373	- 2 871	- 2 599
Cash flow from financing activities	531	- 478	522	- 904	8 393	9 819

Note 5 Impairment losses

Vattenfall's assets are tested for impairment yearly, or whenever there is an indication that they may have decreased in value. Due to deteriorated market conditions, impairment testing was conducted during the second quarter. As a result, the following impairment losses have been recognised during the first half of 2016:

Amounts in SEK million	Goodwill	Property, plant and equipment	Effect on operating profit	Effect on taxes	Total impairment
Customers & Solutions	—	9	9	- 3	6
- of which, other assets	—	9	9	- 3	6
Power Generation	666	2 625	3 291	- 754	2 537
- of which, hydro power plants in Germany	—	2 260	2 260	- 678	1 582
- of which, Trading Netherlands	666	—	666	—	666
- of which, other assets	—	365	365	- 76	289
Wind	—	130	130	- 27	103
- of which, wind assets in Sweden	—	81	81	- 18	63
- of which, wind assets in UK	—	49	49	- 9	40
Heat	—	5 544	5 544	- 1 614	3 930
- of which, the German plant Moorburg	—	4 577	4 577	- 1 372	3 205
- of which, fossil based assets in the Netherlands	—	927	927	- 232	695
- of which, other assets	—	40	40	- 10	30
Other	—	3	3	- 1	2
- of which, other assets	—	3	3	- 1	2
Impairment continuing operations Q1 - Q2 2016	666	8 311	8 977	- 2 399	6 578
Impairment discontinued operation Q1 - Q2 2016	—	21 004	21 004	- 6	20 998
Total Impairment Q1-Q2 2016	666	29 315	29 981	- 2 405	27 576
Of which, assets in the Germany	—	27 866	27 866	- 2 059	25 807
Of which, assets in Nordic	—	423	423	- 93	330
Of which, assets in the UK	—	49	49	- 9	40
Of which, assets in the Netherlands	666	977	1 643	- 244	1 399
Total Impairment Q1-Q2 2016	666	29 315	29 981	- 2 405	27 576

The impairment testing was conducted by calculating the value in use of the cash-generating units. The structure of the cash-generating units is based on the Group's Business Unit structure. During the first half of the year, impairment losses charged against operating profit amounted to SEK 29,981 million. Most of these impairment losses, SEK 21,004 million, are attributable to discontinued operations, while SEK 5,544 million are attributable to the Heat operating segment and SEK 3,291 million are attributable to the Power Generation operating segment. The impairment losses attributable to discontinued operations are based on fair value.

Goodwill is not amortised, but is tested for impairment yearly. During the first half of 2016, impairment of goodwill amounted to SEK 666 million, attributable to the Power Generation operating segment (Trading cash-generating segment). Remaining goodwill, totalling SEK 12,619 million, is attributable to the Customers & Solutions operating segment (Sales B2B & B2C cash-generating unit).

Impairment process for continuing operations

The main assumptions that executive management has used in calculating projections of future cash flows in cash-generating units with finite useful lives are based on forecasts of the useful life of the respective assets. The projected cash flows are based on market prices and on Vattenfall's long-term market outlook. The long-term market outlook is based on internal and external input parameters and is benchmarked against external price projections. Based on the price assumptions, the dispatch of the power plants is calculated, taking technical, economic and legal constraints into consideration. Technical flexibility of the assets, i.e., the ability to adapt generation to changes in spot market prices, has been taken into account. Cash flow projections for other cash-generating units are based on the business plan for the coming five years, after which their residual value is taken into account, based on a growth factor of 0% (0%).

Future cash flows have been discounted to value in use using a discount rate of 5.2% (5.5%–5.6%) after tax, which corresponds to 6.9%–7.5% before tax for regulated business. For non-regulated business, future cash flows have been discounted at a rate of 5.3%–7.3% (5.6%–9.4%) after tax, which corresponds to 5.6%–9.0% before tax. The discount rate varies for the various asset classes, depending on their risk. When setting the discount rate for non-regulated business, consideration has been given to the extent of exposure this has for changes in wholesale prices of electricity, fuel, CO₂ emission allowances, and regulatory risks. An increase in the discount rate by 0.5 percentage points would give rise to a need to recognise additional impairment losses of approximately SEK 3 billion.

The Parent Company Vattenfall AB

Accounting policies

The Parent Company Vattenfall AB's accounts are prepared in accordance with the Swedish Annual Accounts Act and recommendation RFR 2 – Accounting for Legal Entities, issued by the Swedish Financial Reporting Board. The accounting policies used in this report are the same as those described in Vattenfall's 2015 Annual and Sustainability Report (Note 2 to the Parent Company accounts, Accounting policies).

First half of 2016

A condensed income statement and balance sheet for the Parent Company are presented below.

- Net sales amounted to SEK 17,247 million (15,872).
- Profit before appropriations and tax was SEK -6,201 million (3,984).
- Earnings were affected by the following:
 - Received dividends of SEK 818 million.
 - A small capital gain from the sale of entire shareholding in Haparanda Värmeverk AB.
 - An impairment loss of SEK 12,700 million for the shareholding in Vattenfall GmbH.
- The balance sheet total was SEK 259,399 million (292,057).
- Investments during the period amounted to SEK 7,186 million (190) of which SEK 7,000 million is related to shareholder contribution to Vattenfall Vindkraft AB.
- Cash and cash equivalents, and short-term investments amounted to SEK 33,388 million (38,794).

Risks and uncertainties

See Note 1 to the consolidated accounts, Accounting policies, risks and uncertainties.

Other

Significant related-party transactions are described in Note 39 to the Parent Company accounts, Related party disclosures, in Vattenfall's 2015 Annual and Sustainability Report. No material changes have taken place in relations or transactions with related parties compared with the description in Vattenfall's 2015 Annual and Sustainability Report.

Parent Company income statement

Amounts in SEK million	Q1-Q2 2016	Q1-Q2 2015	Full year 2015
Net sales	17 247	15 872	30 670
Cost of products sold	- 13 776	- 11 935	- 24 177
Gross profit	3 471	3 937	6 493
Selling expenses, administrative expenses and research and development costs	- 1 214	- 1 253	- 2 354
Other operating income and expenses, net	238	525	1 009
Operating profit (EBIT)	2 495	3 209	5 148
Result from participations in subsidiaries	- 11 815	2 653	3 654
Result from participations in associated companies	—	7	7
Other financial income	5 057	507	991
Other financial expenses	- 1 938	- 2 392	- 3 650
Profit before appropriations and tax	- 6 201	3 984	6 150
Appropriations	1 111	1 603	1 194
Profit before tax	- 5 090	5 587	7 344
Income tax expense	- 1 487	- 732	- 908
Profit for the period	- 6 577	4 855	6 436

Parent Company statement of comprehensive income

Amounts in SEK million	Q1-Q2 2016	Q1-Q2 2015	Full year 2015
Profit for the period	- 6 577	4 855	6 436
Total other comprehensive income	—	—	—
Total comprehensive income for the period	- 6 577	4 855	6 436

Parent Company balance sheet

Amounts in SEK million	30 June 2016	30 June 2015	31 Dec. 2015
Assets			
Non-current assets			
Intangible assets: non-current	168	141	174
Property, plant and equipment	4 024	4 032	4 122
Shares and participations	146 210	116 970	151 865
Deferred tax assets	217	—	212
Other non-current receivables	58 951	83 629	83 624
Total non-current assets	209 570	204 772	239 997
Current assets			
Inventories	271	361	342
Intangible assets: current	224	132	215
Current receivables	15 946	14 036	12 172
Current tax assets	—	23	537
Short-term investments	21 644	30 131	28 491
Cash and cash equivalents	11 744	16 470	10 303
Total current assets	49 829	61 153	52 060
Total assets	259 399	265 925	292 057
Equity, provisions and liabilities			
Equity			
Restricted equity			
Share capital (131,700,000 shares with a share quota value of SEK 50)	6 585	6 585	6 585
Revaluation reserve	37 989	—	37 989
Other reserves	1 303	1 286	1 286
Non-restricted equity			
Retained earnings	50 155	43 737	43 736
Profit for the period	- 6 577	4 855	6 436
Total equity	89 455	56 463	96 032
Untaxed reserves	12 658	14 625	14 882
Provisions	4 846	4 764	4 835
Non-current liabilities			
Hybrid capital	18 925	15 215	18 603
Other interest-bearing liabilities	50 559	53 668	54 961
Deferred tax liabilities	—	165	—
Other noninterest-bearing liabilities	12 137	36 314	18 302
Total non-current liabilities	81 621	105 362	91 866
Current liabilities			
Other interest-bearing liabilities	66 842	80 842	78 348
Current tax liabilities	676	—	—
Other noninterest-bearing liabilities	3 301	3 869	6 094
Total current liabilities	70 819	84 711	84 442
Total equity, provisions and liabilities	259 399	265 925	292 057

Definitions and calculations of key ratios

Alternative Performance Measures

In order to ensure a fair presentation of the Group's operations, the Vattenfall Group uses a number of Alternative Performance Measures that are not defined in IFRS or in the Swedish Annual Accounts Act. The Alternative Performance Measures that Vattenfall uses are described below, including their definitions and how they are calculated. The Alternative Performance Measures used are unchanged compared with earlier periods.

	Definition
EBIT:	Operating profit (Earnings Before Interest and Tax)
EBITDA:	Operating profit before depreciation, amortisation and impairment losses (Earnings Before Interest, Tax, Depreciation and Amortisation)
Items affecting comparability:	Capital gains and capital losses from shares and other non-current assets, impairment losses and reversed impairment losses and other material non-recurring items. Also included here are, for trading activities, unrealised changes in the fair value of energy derivatives, which according to IAS 39 cannot be recognised using hedge accounting and unrealised changes in the fair value of inventories
Underlying EBITDA:	Underlying operating profit before depreciation, amortisation and impairment losses
Underlying operating profit:	Operating profit (EBIT) excluding items affecting comparability
FFO:	Funds From Operations, see Consolidated statement of cash flow
Free cash flow:	Cash flow from operating activities less maintenance investments
Interes-bearing liabilities	see Consolidated balance sheet - Supplementary Information
Net debt:	see Consolidated balance sheet - Supplementary Information
Adjusted net debt:	See Consolidated balance sheet - Supplementary Information
Capital employed:	Total assets less financial assets, noninterest-bearing liabilities and certain other interest-bearing provisions not included in adjusted net debt. see Consolidated balance sheet - Supplementary Information
Other definitions	Definition
Hybrid Capital:	Perpetual subordinated securities, junior to all Vattenfall's unsubordinated debt instruments.
LTIF:	Lost Time Injury Frequency (LTIF) is expressed in terms of the number of lost time work injuries (per 1 million hours worked), i.e., work-related accidents resulting in absence longer than one day, and accidents resulting in fatality.

The key ratios are presented as percentages (%) or times (x).

Key ratios based on continuing operations (except for return on equity which is based on total Vattenfall) and last 12-month values July 2015 – June 2016:

Operating margin, %	= 100 x	$\frac{\text{EBIT}}{\text{Net sales}} = \frac{7\,908}{144\,973}$	5.5
Operating margin excl. items affecting comparability, %	= 100 x	$\frac{\text{Underlying EBIT}}{\text{Net sales}} = \frac{21\,088}{144\,973}$	14.5
Pre-tax profit margin, %	= 100 x	$\frac{\text{Profit before tax}}{\text{Net sales}} = \frac{3\,390}{144\,973}$	2.3
Pre-tax profit margin excl. items affecting comparability, %	= 100 x	$\frac{\text{Profit before tax excl. items affecting comparability}}{\text{Net sales}} = \frac{16\,584}{144\,973}$	11.4
Return on equity, %	= 100 x	$\frac{\text{Profit for the period attributable to owner of the Parent Company}}{\text{Average equity for the period attributable to owner of the Parent Company excl. the Reserve for cash flow hedges}} = \frac{-18\,591}{90\,210}$	-20.6
Return on capital employed, %	= 100 x	$\frac{\text{EBIT}}{\text{Capital employed, average}} = \frac{7\,908}{251\,859}$	3.1
Return on capital employed excl. items affecting comparability, %	= 100 x	$\frac{\text{Underlying EBIT}}{\text{Capital employed, average}} = \frac{21\,088}{251\,859}$	8.4
EBIT interest cover, (x)	=	$\frac{\text{EBIT + financial income excl. return from the Swedish Nuclear Waste Fund}}{\text{Financial expenses excl. discounting effects attributable to provisions}} = \frac{9\,867}{4\,443}$	2.2
EBIT interest cover excl. Items affecting comparability, (x)	=	$\frac{\text{Underlying EBIT + financial income excl. Return from the Swedish Nuclear Waste Fund}}{\text{Financial expenses excl. discounting effects attributable to provisions}} = \frac{23\,047}{4\,443}$	5.2
FFO interest cover, (x)	=	$\frac{\text{FFO + financial expenses excl. discounting effects attributable to provisions}}{\text{Financial expenses excl. discounting effects attributable to provisions}} = \frac{33\,269}{4\,443}$	7.5
FFO interest cover, net, (x)	=	$\frac{\text{FFO + financial items net excl. discounting effects attributable to provisions and return from the Swedish Nuclear Waste Fund}}{\text{Financial items net excl. discounting effects attributable to provisions and return from the Swedish Nuclear Waste Fund}} = \frac{31\,310}{2\,484}$	12.6

Cash flow interest cover after maintenance investments, (x)	=	$\frac{\text{Cash flow from operating activities less maintenance investments + financial expenses excl. Discounting effects attributable to provisions and interest components related to pension costs}}{\text{Financial expenses excl. discounting effects attributable to provisions and interest components related to pension costs}}$	$\frac{28\,479}{3\,510}$	8.1
FFO/gross debt, %	= 100 x	$\frac{\text{FFO}}{\text{Interest-bearing liabilities}}$	$\frac{28\,826}{96\,634}$	29.8
FFO/net debt, %	= 100 x	$\frac{\text{FFO}}{\text{Net debt}}$	$\frac{28\,826}{63\,654}$	45.3
FFO/adjusted net debt, %	= 100 x	$\frac{\text{FFO}}{\text{Adjusted net debt}}$	$\frac{28\,826}{128\,948}$	22.4
EBITDA/net financial items, (x)	=	$\frac{\text{EBITDA}}{\text{Financial items net excl. discounting effects attributable to provisions and return from the Swedish Nuclear Waste Fund}}$	$\frac{31\,555}{2\,484}$	12.7
EBITDA excl. items affecting comparability/net financial items, (x)	=	$\frac{\text{EBITDA excl. items affecting comparability}}{\text{Financial items net excl. discounting effects attributable to provisions and return from the Swedish Nuclear Waste Fund}}$	$\frac{35\,472}{2\,484}$	14.3

Key ratios based on the balance sheet per 30 June 2016:

Equity/total assets, %	= 100 x	$\frac{\text{Equity}}{\text{Balance sheet total}}$	$\frac{87\,713}{416\,951}$	21.0
Gross debt/equity, %	= 100 x	$\frac{\text{Interest-bearing liabilities}}{\text{Equity}}$	$\frac{96\,634}{87\,713}$	110.2
Net debt/equity, %	= 100 x	$\frac{\text{Net debt}}{\text{Equity}}$	$\frac{63\,654}{87\,713}$	72.6
Gross debt/gross debt equity, %	= 100 x	$\frac{\text{Interest-bearing liabilities}}{\text{Interest-bearing liabilities + equity}}$	$\frac{96\,634}{184\,347}$	52.4
Net debt/net debt plus equity, %	= 100 x	$\frac{\text{Net debt}}{\text{Net debt + equity}}$	$\frac{63\,654}{151\,367}$	42.1
Net debt/EBITDA, (x)	=	$\frac{\text{Net debt}}{\text{EBITDA}}$	$\frac{63\,654}{31\,555}$	2.0
Adjusted net debt/EBITDA, (x)	=	$\frac{\text{Adjusted net debt}}{\text{EBITDA}}$	$\frac{128\,948}{31\,555}$	4.1

Interim report signature

The Board of Directors and the President certify that this half-year interim report presents a true and fair overview of the Vattenfall Group's and the Parent Company Vattenfall AB's operations, financial position and results of operations, and describes the significant risks and uncertainties facing the Parent Company and the companies belonging to the Group.

Solna, 20 July 2016

Lars G. Nordström
Chairman of the Board

Magnus Hall
President and CEO

Carl-Gustaf Angelin

Fredrik Arp

Viktor Bergman

Johnny Bernhardsson

Staffan Bohman

Ronny Ekwall

Håkan Erixon

Tomas Kåberger

Jenny Lahrin

Åsa Söderström Jerring

Hilde Tonne

Financial calendar

Interim report January-September, 27 October 2016

Year-end report 2016, 7 February 2017

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Review report

Introduction

We have reviewed the condensed interim report for Vattenfall AB (publ) as at 30 June 2016 and for the six month period then ended with the exception of pages 3-4. The Board of Directors and the CEO are responsible for the preparation and presentation of this interim report in accordance with IAS 34 and the Swedish Annual Accounts Act. Our responsibility is to express a conclusion on this interim report based on our review.

Scope of review

We conducted our review in accordance with the International Standard on Review Engagements, ISRE 2410 Review of Interim Financial Statements Performed by the Independent Auditor of the Entity. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and other generally accepted auditing standards in Sweden. The procedures performed in a review do not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim report is not prepared, in all material aspects, in accordance with IAS 34 and the Swedish Annual Accounts Act regarding the Group, and in accordance with the Swedish Annual Accounts Act regarding the Parent Company.

Stockholm, 20 July 2016

Ernst & Young AB

Staffan Landén

Authorised Public Accountant