GROUP ACCOUNTING PRINCIPLES AND NOTES

NOTE 1. GROUP ACCOUNTING PRINCIPLES

GENERAL INFORMATION

Wallenstam AB (publ) is a Swedish public limited company with its registered office in Gothenburg. The Wallenstam B share is listed on Nasdaq Stockholm, Large Cap segment. The parent company is Wallenstam AB (publ), with corporate identity number 556072-1523 and the company's address is SE-401 84 Gothenburg, with visiting address Kungsportsavenyen 2.

The Group's operations are conducted through subsidiaries and its operations are described in the Administration Report. The annual accounts and consolidated financial statements for Wallenstam AB (publ) for the financial year ending 31 December 2015 were approved by the Board of Directors and the Chief Executive Officer on 11 March 2016 and will be presented to the Annual General Meeting (AGM) on 28 April 2016 for approval.

BASIS OF ACCOUNTING

The consolidated financial statements have been prepared in accordance with EU-approved International Financial Reporting Standards (IFRS) and interpretations from the International Financial Reporting Interpretations Committee (IFRIC) as of 31 December 2015. In addition the Group applies the Swedish Financial Reporting Board's recommendation RFR 1, "Supplementary Accounting Rules for Groups".

The parent company applies the same accounting principles as the Group with the exceptions and additions described in the Swedish Financial Reporting Board's recommendation RFR 2, "Accounting for Legal Entities". This means that IFRS is applied with the exceptions described below in the section entitled "Parent company accounting principles" on page 110. The most important accounting principles applied by the Group are described below along with a summary of new and amended standards and interpretations that are expected to have an effect on the reporting.

The accounting principles set out below for the Group have been applied consistently in the reporting and consolidation of the parent company and all subsidiaries in all the periods presented in the consolidated financial statements, unless otherwise indicated below.

The functional currency of the parent company and the Group's presentation currency is the Swedish krona (SEK). All amounts are stated in millions of Swedish kronor (SEK million) unless otherwise indicated. The financial statements for the Group have been prepared based on historical cost, which means that assets and liabilities are recognized at these values with the exception of properties and certain financial instruments and renewable energy certificates, which are measured at fair value.

Judgements made by company management when applying IFRS that have a significant impact on the financial statements and estimates made and that may lead to significant adjustments to the following year's financial statements are described in more detail below.

New and amended accounting principles

No new or amended standards were applied from 2015.

For information on new standards, refer to the final paragraph of the accounting principles section.

ASSESSMENTS AND ESTIMATES

In order to prepare the financial reporting in accordance with IFRS and generally accepted accounting principles, the company management must make various assumptions, assessments and estimates that through the choice of accounting principles or other assumptions, affect for example assets and liabilities, revenues and expenses, contingent assets and contingent liabilities and other information recognized in the accounts. These assessments and estimates are based on historical experience and expectations about future events that are considered reasonable in the current circumstances. By their very nature, actual outcomes may differ from these assessments and estimates if other assumptions are made or other conditions exist or arise. Changes to estimates are recognized during the period in which they are made if they affect that period only, or in the period in which they are made and future periods if the change affects both current and future periods.

Investment properties

Assessments and estimates in the field of investment property valuation may have a particularly significant impact on the Group's recognized earnings and position. Valuations of investment properties, which are internal, require assessments of and assumptions about, for example future cash flows and the determination of yield requirements (discount factor) for each individual property. Assessments made affect the carrying amount of the item "Investment properties" in the balance sheet, and the item "Unrealized change in value, investment properties" is recognized in the income statement. When a transaction is completed a cross-check is made of the assumptions made. Wallenstam also monitors relevant completed property transactions and carries out quarterly internal valuations of its entire property holdings. To reflect the uncertainty of assumptions, assessments and estimates made, a so-called valuation range of +/– 5 to 10 percent is specified. Information about uncertainties and about significant assumptions and assessments made for the internal valuation is presented in Note 17.

Asset acquisition versus business combination

Acquisitions may be classified as either business combinations or asset acquisitions. This is an assessment that must be made in each individual case. In cases where the primary purpose is to acquire a company's real estate and where the acquired property lacks a property management organization and administration or where this is of minor importance to the acquisition, the acquisition is classified as an asset acquisition. Other company acquisitions that therefore usually include an independent operation are classified as business combinations.

In the case of asset acquisitions, no deferred tax is recognized attributable to the acquisition of property , but instead any tax discount negotiated reduces the property's acquisition cost. This means that changes in value in subsequent valuations are affected by the tax discount. In the case of business combinations, the acquisition of a subsidiary is recognized according to the purchase method and deferred tax is recognized at the nominal applicable tax rate without discount. All transactions carried out during the year are considered asset acquisitions.

Wind power and hydroelectric power

Items of property, plant and equipment are depreciated over the period during which in the assessment of the company management they are expected to generate revenue, i.e. their useful life. If there is an indication that an asset has declined further in value, the asset's recoverable amount is calculated, which is the higher of the asset's fair value less selling expenses and its value in use. An impairment loss is recognized when the asset's recoverable amount is lower than its carrying amount. The recoverable amount is determined based on management estimates of e.g. future cash flow. Value in use is assessed from the starting point of expected future production, which is mainly dependent on the weather. In addition, anticipated price levels and demand levels are estimated in respect of electricity and renewable energy certificates. The useful life of a wind turbine is estimated to be 25 years, which is equivalent to the lease term and forms the basis of the investment calculation. Assumptions made with regard to impairment testing are described in Note 18.

Deferred tax

According to the accounting rules, deferred tax must be recognized at nominal value without discounting at the prevailing tax rate, currently 22 percent. Wallenstam mainly has three items where temporary differences occur that constitute a basis for recognition of deferred tax: properties, changes in value of derivative instruments and loss carryforwards. When measuring loss carryforwards an assessment is made of the probability that the loss can be utilized in the future. Confirmed losses which with a high degree of certainty can be used against future profits form the basis for calculating deferred tax assets. In the case of asset acquisitions, no deferred tax is recognized attributable to the acquisition.

Other items

Other items that include critical estimates include assessments made in connection with the realization of investment properties, which are mainly considered to be significant in respect of promissory notes. For these, an assessment is made of the amount that is expected to be received.

CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements cover the parent company and all companies in which the parent company directly or indirectly has more than 50 percent of the voting rights or exercises control in another way. Control means that the Group can influence the investment in a way that affects its return or provides other benefits. The assessment takes into consideration de facto control, which means that control may exist even if a majority of the votes are not held.

Consolidated financial statements are prepared according to the purchase method, which means that equity in subsidiaries at the time of acquisition is eliminated in its entirety, and are based on accounting information prepared for all Group companies as of 31 December 2015. Consolidated equity thus includes only the portion of a subsidiary's equity earned since the acquisition. Profit/loss from companies acquired or divested during the year are included in the consolidated financial statements at amounts corresponding to the holding period. An acquisition analysis is prepared in connection with the acquisition to determine the cost of the participations and the fair value of acquired assets and assumed liabilities and contingent liabilities. Internal transactions between Group companies and inter-company dealings including internal profits are eliminated when preparing the consolidated financial statements.

The Group's foreign operations are translated into the Group's functional currency (SEK) by translating balance sheets at the exchange rate on closing day (current rate method), except for equity, which is translated at the historical exchange rate at the time of acquisition. Income and expense items are translated at the average exchange rate for the period. The translation differences that arise are recognized in other comprehensive income. Accumulated translation differences form part of the Group's equity among other reserves and are transferred and recognized as a component of capital gains or losses when a foreign subsidiary is divested. Financial assets and liabilities in foreign currency are translated at closing day exchange rate, at which time realized and unrealized exchange differences are recognized through profit or loss. Exchange gains/losses related to operations are recognized under operating income and operating expenses respectively. Financial exchange gains/losses are recognized as financial income and expenses.

The proportion of equity attributable to owners with non-controlling interests (previously designated minority holdings) is recognized as a special item in equity separate from the parent company shareholders' share of equity. In addition, its share of profit/loss for the period is disclosed separately.

Participations in associated companies

A company is recognized as an associated company when Wallenstam holds at least 20 percent of the votes and a maximum of 50 percent, or has control over operational and financial governance through other means. Associated companies are recognized in the consolidated financial statements according to the equity method.

Participations in associated companies are recognized in the balance sheet at cost adjusted for changes in the Group's share of the associated companies' net assets, less any reductions in fair value. In the case of transactions between Group companies and associated companies, the proportion of the unrealized gains and losses corresponding to the Group's participation is eliminated.

Segment reporting

Operating segments are reported in a manner that corresponds to the internal reporting to the chief operating decision-maker, Wallenstam's CEO. Operations are run and followed-up in the Group's three reporting business areas: properties in the Gothenburg region, properties in the Stockholm region and renewable energy through Svensk NaturEnergi.

The reporting principles applied in the segment information (Note 4) essentially correspond with the Group's accounting principles. For the Svensk NaturEnergi business area, however, derivative instruments are presented differently in the income statement and in the segment information, since in the internal reporting (which is reflected in the segment information) these instruments qualify for hedge accounting. An expense that is recognized under change in value, electricity derivatives in the consolidated income statement is not recovered and is therefore never recognized as an operating expense. In the segment information, however, changes in value are presented net and as an operating expense item, equivalent to the cash flow effect. For this reason, profit/loss from natural energy management operations is presented differently in the consolidated income statement and in the segment information. There is a corresponding difference in presentation for changes in the value of renewable energy certificates after initial recognition.

Statement of cash flows

The statement of cash flows shows changes in cash and cash equivalents and the Group's available liquid assets for the period. The statement of cash flows is prepared according to the indirect method, which involves adjustment of the operating profit/loss for transactions that do not give rise to incoming or outgoing payments during the period, broken down into the different operating segments:

- Operating activities: revenues and expenses included in operating profit/loss, interest received and paid, taxes paid and change in working capital.
- Investing activities: acquisitions of assets and other types of investments.
- Financing activities: raised and amortized loans, dividends, repurchase of shares and any new share issues.

Classification

Non-current assets and non-current liabilities consist of amounts that are expected to be recovered or paid more than twelve months from closing day. Current assets and current liabilities consist of amounts that are expected to be recovered or paid within twelve months from closing day.

INCOME STATEMENT AND BALANCE SHEET

Rental income

The Group recognizes income when the amount can be measured reliably and it is probable that future economic benefits will accrue to the Group. Rental agreements attributable to Wallenstam's investment properties are considered operating leases according to IAS 17. Income comprises the fair value of what will be received in the Group's operating activities. Recognized income refers mainly to rental income. Where applicable, rental income includes services provided by Wallenstam such as cable TV, electricity and heating. The income is recognized net less any rebates. Rental income is notified in advance, allocated to periods in accordance with rental agreements and recognized as income during the rental period concerned. Rent paid in advance is recognized as prepaid rental income.

Rebates provided in the case of infringements on rights of use, e.g. during conversions and/or in connection with occupation, are recognized in the period they concern. Compensation in connection with the early termination of rental agreements is immediately recognized as income if no obligations towards the tenant remain.

Operating expenses

Wallenstam's operating expenses consist of expenses incurred in connection with property management such as property upkeep, electricity and fuel expenses, maintenance, leaseholds/tenancies, property tax and other operating expenses. Operating expenses are recognized in the period they concern.

Management costs and administrative expenses

Wallenstam's management costs and administrative expenses consist of the Group's administrative expenses such as expenses for personnel, offices, premises, consultants, marketing, depreciation of fixtures and fittings and expenses for the employees' synthetic options scheme, where this is a realized cost. Expenses are recognized in the period they concern. Remuneration to employees is recognized in line with performance of services.

Financial income

Financial income refers to interest income from bank deposits, receivables, financial investments, dividend income and positive exchange differences on financial items. Financial income is recognized in the period it concerns. Dividends are recognized when the right to receive payment has been established.

Financial expenses

Financial expenses refer to interest and other expenses arising in connection with borrowing and are recognized in the income statement in the period they concern. The cost of taking out mortgages is not considered a financial expense but is capitalized as a property investment. Financial expenses include interest expenses for interest rate derivative contracts, which are recognized in the income statement as an interest expense in the period they relate to. Net financial items are not affected by market valuations of concluded interest rate derivative contracts, which are instead recognized as changes in value under their own heading. Average interest for a reporting period comprises the corresponding actual interest to pay both as a result of agreed interest rates and as an effect of derivative contracts entered into. The financial expenses component that refers to major new construction, extensions or conversions is capitalized. The capitalized interest is calculated on the basis of the average weighted borrowing cost for the Group.

Result from natural energy management operations

Profit or loss from natural energy management operations consists of revenues less expenses including depreciation, administrative expenses and interest expenses attributable to electricity trading and electricity generation, which also includes profit or loss from renewable energy certificates. Sales revenue and expenses for electricity are recognized in the period delivery takes place to customers excluding value added tax and excise duties. Renewable energy certificates are initially measured at cost and are subsequently recognized on an ongoing basis at a remeasured amount consisting of the fair value at the time of remeasurement, identified as closing day spot price. All changes in value resulting from these remeasurements are recognized in the income statement as electricity revenues from natural energy management operations. Profit or loss from natural energy operations also includes revenues from the sale of surplus renewable energy certificates generated by Wallenstam's energy production. For further information and conditions regarding renewable energy certificates, see below under intangible current assets.

Result from sales of co-op apartments

Revenues from sales of co-op apartments refers to compensation from sales of co-op apartment projects and co-op apartment units. Newly constructed co-op apartments are recognized according to IFRIC 15, Agreements for the Construction of Real Estate. For Wallenstam, this means that IAS 18, Revenue, is applied. In the balance sheet, investments are recognized at book value on an ongoing basis in the line "Work in progress, co-op apartments". In conjunction with sale, the compensation received is recognized as revenue and the apartment's estimated share of production costs is recognized as an expense, or in the case of co-op apartment units acquired from an external party, the cost of the apartment. Revenue and expenses are recognized in the income statement when the purchaser takes possession of the property, while marketing expenses are recognized on an ongoing basis.

Realized changes in value, investment properties incl. overheads

Realized changes in value refer to gains or losses from sales of investment properties. A sale is recognized as realized on the date of taking possession unless this contravenes particular terms in the purchase agreement. This also applies in the case of sales of property via companies. In connection with sales of properties via companies, the transaction is recognized gross as regards property price and deferred tax. Gains or losses on the sale of property comprise the difference between the agreed purchase price and the estimated market value on the previous reporting date. Direct selling expenses and a share of internally distributed administration expenses are deducted.

Unrealized change in value, investment properties
Investment properties are valued on an ongoing basis in accordance with IAS 40 at estimated fair value. The valuation is internal and is made in conjunction with each quarterly financial statements. The difference between the valuation on closing day and the valuation on the immediately preceding reporting date is recognized as an unrealized change in value in the income statement. Properties that are contracted for sale with taking of possession after closing day are valued at selling price on reporting date with consideration of any remaining uncertainty.

Changes in value, derivative instruments
Wallenstam's financial derivative instruments consist mainly of interest rate derivatives and electricity derivatives but also currency futures contracts. Wallenstam uses interest rate derivatives to achieve a desired interest maturity profile. If the agreed interest rate deviates from the market interest rate, a surplus or deficit will arise for the interest rate derivatives. The difference in value that arises, which does not affect cash flow, is recognized through profit or loss. The changes in value may be realized or unrealized. Realized changes in value refer to settled interest rate derivative contracts and constitute the difference between the latest carrying amount and the determined price at redemption. Unrealized changes in value refer to the change in value that has arisen for Wallenstam's interest rate derivative contracts since the previous year, or compared to cost if the contracts were concluded during the year.

In order to determine fair value, market interest rates are used for each maturity as well as exchange rates and electricity prices, as if they were quoted on the market on closing day. Interest rate swaps are measured by discounting future cash flows to present value while instruments with an option component are measured at current repurchase price. Fair value is determined according to level 2 under IFRS 13. In order to secure electricity generation expenses and revenues from electricity sales and reduce the impact of market fluctuations, Wallenstam hedges parts of the electricity price in the financial market. Electricity derivatives are measured at market value based on market data and are classified at level 2. Currency derivatives, which are used to hedge cash flows in foreign currency, are also classified at level 2. Refer also to Notes 2 and 3 for details.

Income tax
Income taxes in the income statement consist of current tax and deferred tax.

Current tax refers to tax that must be paid in respect of the current year and is calculated according to the prevailing tax rate. This also includes any adjustments to current tax from previous periods. Deferred tax is calculated in accordance with the balance sheet method on the basis of the nominal amount of temporary differences between the carrying amounts and fiscal values of assets and liabilities, also see deferred tax below.

Tax is recognized in the income statement except where it refers to items that are recognized in other comprehensive income or directly in equity. In such cases the tax is also recognized in other comprehensive income or equity.

Change in value, synthetic options scheme
Refers to unrealized change in value of synthetic options scheme to employees, also see Employee benefits below.

Leases
Leases in which essentially all risks and benefits associated with ownership remain with the lessor are classified as operating leases. All current rental agreements attributable to Wallenstam's investment properties are considered operating leases from a reporting perspective. Such leases are recognized according to the principle for revenue recognition. Site leasehold agreements are also considered operating leases from a reporting perspective. Site leasehold rents are recognized as an expense in the period they relate to. There are also a small number of minor leases in which Wallenstam is the lessee. These leases are also operating leases and mainly relate to photocopiers and company cars. Payments made during the lease term are expensed in the income statement on a straight-line basis over the term of the lease.

Property, plant and equipment
Property, plant and equipment is recognized at cost less accumulated depreciation and impairment losses, except in the case of investment property, which is recognized at fair value in accordance with IAS 40, and works of art, which are recognized at cost with no deduction for depreciation. Depreciation is carried out on a straight-line basis over the estimated period of use. Assets covered by impairment testing under IAS 36 are Intangible assets, Wind turbines and Equipment. When there are indications that an asset has fallen in value, an assessment of the asset's carrying amount is carried out. In cases where the carrying amount exceeds the estimated recoverable amount, the asset is written down to its recoverable amount. Impairment losses are recognized in the income statement. Previous impairment losses are reversed if the conditions for the impairment loss no longer exist. The maximum amount of the reversal is the asset's cost less estimated depreciation according to plan up until closing day. Reversals are recognized in the income statement.

Investment properties
Investment properties refers to properties that are held with the objective of generating rental income or an increase in value or both.

Investment properties, which are initially measured at cost including expenditures directly attributable to the acquisition, are recognized at fair value according to IAS 40. Fair value corresponds to the estimated market value and is determined by an internal valuation model described in more detail in Note 17, where the assumptions that form the basis for the valuation are also described. The model is based on an evaluation of future payment streams with differentiated market-related yield requirements per property. This means that the market's yield requirement is set in relation to the net operating income of each property. The value of investment properties held on closing day is thus affected by changes in yield requirements, net operating income and investment requirements. The estimated market value of undeveloped land and land development rights is added to this. Changes in value are recognized in the income statement.

Property acquisitions and property sales are recognized on the day of taking possession, when risks and benefits are transferred to the purchaser. Properties that are contracted for sale with taking of possession after closing day are valued at selling price on reporting date with consideration for any uncertainty.

All of Wallenstam's properties are classified as investment properties apart from properties that are part of a co-op apartment project, which are recognized in the balance sheet as Work in progress, co-op apartments. If an investment begins in a new or existing investment property that is intended for continued use as an investment property within the Group, the property is also recognized as an investment property during its construction or conversion phase. During the construction phase of a rental property, fair value is deemed to correspond to the Group's investment on each closing day plus a share of the estimated surplus on completion date in relation to the degree of completion of the construction. The latter is based on costs incurred. Estimated market values for recently completed new investment properties are initially charged with a risk supplement on the yield requirement of 0.25 percentage points compared to an established investment property in the same location. This is done because of the uncertainty that exists regarding budgeted expenditures for final production expenses and operation. After a period in operation when the actual conditions are known, the yield requirement is tested again. In the case of conversions of investment properties that undergo a more large-scale conversion, the fair value during the conversion period is generally considered to equal the market value that the investment property had at the start of the project with the addition of subsequently made investments.

Additional expenditures are added to the carrying amount if it is probable that the future economic benefits associated with the asset will accrue to the Group. In the case of large new constructions and conversions, interest expenses are capitalized during the project period until the property is taken into use. Expenditures in respect of day-to-day maintenance and repairs are expensed in the period in which they arise. Valuations of investment properties require assumptions, estimates and assessments concerning future cash flows and the determination of yield requirements for each individual property. Information about uncertainties and assessments made during the internal valuation is provided in the section on assessments and estimates, and a description of the valuation model and a sensitivity analysis is presented in Note 17.

Wind power and hydroelectric power

Wind turbines and hydroelectric plants are recognized at cost less accumulated depreciation and any impairment losses. Depreciation is carried out according to plan at 4 percent of cost over the useful life. The plants' useful life, depreciation method and residual value are assessed on an ongoing basis according to the principles described above under "Assessments and estimates".

Equipment

Equipment is recognized at cost less accumulated depreciation and any impairment losses. Depreciation of the cost occurs according to plan over the equipment's useful life. Depreciation rates are 33 percent for computers, 10 percent for furniture and 20 percent for other equipment. The useful life of equipment, the depreciation method and residual value are assessed on a continuous basis. Works of art are not depreciated. Depreciation of equipment is included in the income statement item "Management costs and administrative expenses".

Intangible assets

Expenditure for software developed and adapted for the Group is recognized under intangible assets if it will provide probable economic benefits in future years. Capitalized expenditures for acquired software are amortized according to plan over the period of use by 20 percent of cost. The useful life of the assets, the depreciation method and residual value are assessed on a continuous basis. Amortization is included in the income statement item "Management costs and administrative expenses". Standard software and annual licences are carried as expenses.

Financial instruments

Financial instruments recognized in the balance sheet include:

- Financial assets and financial liabilities measured at fair value through profit or loss
- Loans and receivables
- Held-to-maturity investments
- Available-for-sale financial assets
- Financial liabilities measured at amortized cost

The classification depends on the purpose for which the financial asset or liability was acquired.

A financial instrument is valued initially at fair value plus transaction costs, with the exception of the categories financial assets or financial liabilities measured at fair value in profit or loss, which are recognized at fair value excluding transaction expenses.

A financial asset or liability is carried in the balance sheet when the company becomes party to a contract. Trade receivables are carried in the balance sheet when invoices are sent. A liability is recognized when the counterparty has performed and a contractual obligation exists to pay, even if an invoice has not been received. A financial asset (or part thereof) is derecognized when the contractual rights are realized, lapse or the company transfers essentially all risks and benefits associated with ownership. A financial liability (or part thereof) is derecognized when the obligation in the agreement is fulfilled or is otherwise extinguished. A financial asset and a financial liability are offset and recognized as a net amount in the balance sheet only where there is a legal right to offset the amounts and it is intended that the items will be settled by a net amount or that the asset will be realized and the liability settled simultaneously. Wallenstam recognizes its financial contracts at gross value for financial instruments such as interest rate swaps and currency futures contracts as no legally binding netting agreements exist. Wallenstam has not identified any embedded derivatives that are to be separated from their host contracts and recognized individually. In accordance with IFRS 13, the fair value of certain assets and liabilities must be disclosed even when they are not measured at fair value in the balance sheet. Wallenstam has loans with the major Swedish banks. According to Wallenstam's finance policy, an individual bank may at most account for 50 percent of the financing to safeguard the spread of risks in relation to financiers. Wallenstam's capital tied up at year-end 2015 was 9 months. Wallenstam has diversified property holdings with approximately equal proportions of residential and commercial space. Combined with the company's stable development over time, this means no immediate substantial changes in counterparty risk are anticipated, nor thus to the Wallenstam Group's borrowing costs. The fair value of the Group's credit liabilities is considered to essentially correspond to recognized liabilities.

The Group assesses on an ongoing basis whether there are objective grounds for recognizing impairment of a financial asset. When there is no write-down requirement, the size of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted by the original effective interest rate.

NOTE 1. GROUP ACCOUNTING PRINCIPLES, CONT.

Financial assets and financial liabilities measured at fair value through profit or loss

This category consists of two sub-groups: financial assets and financial liabilities held for trading, i.e. whose main purpose is to be sold or repurchased in the short term, and other financial assets and liabilities which the company initially chose to place in the Fair Value Option category. Derivatives are classified as held for trading if they are not identified as hedges. Financial assets and liabilities in this category are measured on an ongoing basis at fair value, with changes in value recognized in profit or loss. This category mainly includes interest rate derivatives, electricity derivatives and currency futures contracts, as well as minor holdings in listed companies. The value of investments in listed shares is calculated using quoted market prices.

Derivative instruments are recognized in the balance sheet on the date of contract at fair value, both initially and at subsequent remeasurement. The Group uses interest rate derivatives to reduce interest rate risk. Borrowing at variable interest rates is switched to fixed-interest loans through interest swap contracts. The Group recognizes interest rate derivatives as financial instruments at fair value through profit or loss. Electricity derivatives, currency futures used for electricity trading and renewable energy certificates are recognized in the same way.

Participations are recognized under current assets and consist of externally acquired shares in cooperative associations. These have been measured at fair value, where fair value consists of the estimated sales value. When co-op apartment units are sold, the income is recognized as "Revenue, sales of co-op apartments" and the sold unit's carrying amount as "Expenses, sales of co-op apartments".

Loans and receivables

This category includes rents and trade receivables, cash and cash equivalents, loans and other receivables. These are measured at amortized cost. Amortized cost is determined on the basis of the effective interest rate that was calculated on the date of acquisition. The anticipated duration of trade receivables is short, for which reason they are recognized at nominal amounts without discounts. Trade receivables and loans are recognized at the amounts expected to be received, i.e. less doubtful receivables. Cash and cash equivalents are recognized at nominal value. Trade receivables consist chiefly of rent receivables and trade receivables in respect of the sale of electricity. Other receivables consist principally of promissory notes related to property transactions.

Available-for-sale financial assets

Available-for-sale financial assets consist of non-derivative assets that are available for sale. Measurement is initially at fair value, usually cost. Fair value adjustment of these instruments is recognized in other comprehensive income in the income statement and in the balance sheet as other investments held as fixed assets. Dividends, interest income and impairment losses are recognized in the income statement.

Financial liabilities recognized at amortized cost

Loans from credit institutions and suppliers and other liabilities are measured at amortized cost. Wallenstam's liabilities consist primarily of liabilities to credit institutions and operating liabilities such as trade payables. Liabilities with a term of more than 12 months are recognized as non-current, others as current. The majority of Wallenstam's liabilities have a shorter maturity than 12 months and are recognized as current. Overdraft facilities refer to loans under current liabilities. Loans are raised in Swedish kronor and recognized in the balance sheet on settlement day at fair value less transaction costs on initial recognition.

Intangible assets

Current intangible assets

Current intangible assets consist of renewable energy certificates, which according to IAS 38, are initially recognized at cost. Following an intangible asset's initial recognition it must be recognized on an ongoing basis at a remeasured value corresponding to fair value at the time of remeasurement. In its capacity as a generator of electricity from renewable energy sources, Wallenstam receives renewable energy certificates from the Swedish Energy Agency.

Renewable energy certificates are obtained free of charge as eligible electricity is generated. Certificates created are measured at fair value at the time of acquisition and are then remeasured at market value at closing day spot price. The price is set through bids from market players via Svensk Kraftmäkling (SKM). Purchased certificates are initially recognized at cost and are then remeasured quarterly. Wallenstam's energy production generates a surplus of renewable energy certificates. Renewable energy certificates created are recognized as revenue under "Loss from natural energy management operations". There is an obligation to deliver renewable energy certificates to the competent authority in the country concerned in connection with electricity sales. This obligation is recognized as an expense and a liability. The expense per certificate represents the latest carrying amount as determined by the remeasurement method for intellectual property rights.

Cash and cash equivalents

Wallenstam's cash and cash equivalents consist of cash and bank balances and investments in securities with a maturity of less than three months. These assets are considered to be immediately negotiable with negligible risk of changes in value, which means the carrying amount corresponds to fair value. Where appropriate, utilized overdraft facilities are recognized as borrowing among current liabilities.

Equity

Equity in the Group is distributed as follows. Share capital corresponds to the parent company's share capital. Other capital contributed consists of capital contributed by shareholders in addition to share capital. This includes the parent company's recognized statutory reserve to the extent contributed by the shareholders. Other reserves consist of amounts that must be recognized in other comprehensive income as a result of IFRS rules. Profit brought forward consists of accumulated profits from the Group's operations and net profit for the year, less dividends to shareholders. This category includes the parent company's recognized statutory reserve to the extent it consists of amounts carried forward from the net profit for the year.

Repurchased own shares including related repurchase expenses are recognized as a reduction of retained earnings. Dividends paid to the parent company's shareholders are recognized as a reduction in equity once approved by the AGM.

Liabilities and financial liabilities

A liability is recognized when the counterparty has performed and a contractual obligation to pay exists, even if an invoice has not been received. A liability is derecognized when the agreement has been fulfilled or otherwise extinguished. The classification determines how the liability is measured, i.e. whether the liability is measured at fair value or at amortized cost. Financial liabilities are classified in the following categories:

- Financial liabilities measured at fair value through profit or loss. Group derivatives with negative fair value for which hedge accounting is not applied are recognized here. Their fair value has been set at level 2 according to IFRS 13. Changes in fair value are recognized in profit or loss.
- Other financial liabilities, loans from credit institutions and suppliers and other liabilities are measured at amortized cost. The majority of Wallenstam's liabilities have a shorter maturity than 12 months and are recognized as current.

For further information, see the Financial instruments section above.

Provisions

A provision is recognized when the Group has an existing legal or informal obligation as a result of prior events where it is probable that an outflow of resources will be required to settle the commitment and a reliable estimate of the amount can be made. The amount that is expected to be required to settle the obligation is recognized as a provision. Recognized provisions consist of those for deferred tax, pensions, termination benefits, warranty commitments in connection with conversion work in sold properties and, where appropriate, estimated amounts for risks in disputes. For wind turbines there are asset retirement obligations, which when applicable are recognized as a part of the wind turbine's cost or provision, respectively. Under IFRIC 21, property tax is entered as a liability in full when the obligation arises, which occurs on 1 January every year.

Provision for deferred tax

A provision for deferred tax is calculated according to the balance sheet method on all temporary differences arising between carrying amounts and fiscal values of assets and liabilities. Deferred tax assets and deferred tax liabilities are measured at nominal amounts in the balance sheet and in accordance with the tax regulations and tax rates that are enacted or announced on closing day. However, exceptions are made for temporary differences that arise on initial recognition of assets and liabilities that constitute asset acquisitions. No deferred tax is recognized for these. This means that a tax liability exists that will fall due for payment on the day the asset or liability is realized. At Wallenstam, there are four main items where temporary differences occur that constitute a basis for recognition of deferred tax: properties, wind turbines, changes in value of derivative instruments and loss carryforwards. Deferred tax liability consists primarily of the temporary difference between the carrying amounts of properties and their fiscal value.

A deferred tax asset in respect of deductible temporary differences and tax loss carryforwards is recognized to the extent that it is probable it may be used against future profits and thus lead to lower tax expenditures. A deferred tax asset or deferred tax liability is recognized in the case of changes in the value of financial derivative instruments depending on whether the market valuations at the time constitute a liability or an asset. Should any change to the above-mentioned balance sheet items occur, the deferred tax liability/asset is also changed, and this is recognized in the income statement as deferred tax. There are no time limitations in respect of the Group's losses and essentially all loss carryforwards in the Group are measured.

Deferred tax assets are recognized net in the balance sheet, as are deferred tax liabilities where these apply to the same tax authority (country).

Employee benefits

Employee benefits are recognized in line with employees performing services in exchange for remuneration.

Provisions for pensions

Pensions are normally financed through payments to insurance companies where payments have been determined based on periodic actuarial calculations.

The Group has both defined benefit pension plans and defined contribution pension plans. A defined contribution pension plan is one where the company pays fixed premiums to an insurance company. A defined benefit pension plan is one that does not have defined contributions but which is instead based on the size of the pension benefits that an employee receives after retirement, usually based on one or more factors such as age, length of service and salary. Plans where the company's obligation is limited to the fees that company has undertaken to pay are classified as defined contribution plans. In such cases, the size of an employee's pension depends on the premiums the company pays to an insurance company and the return on capital the premiums generate. Consequently, the employee bears the actuarial risk (that the payments will be lower than expected) and the investment risk (that the invested assets will be insufficient to provide the expected payments). The company's obligations in respect of premiums for defined contribution plans are recognized as a consolidated expense as they are earned.

Wallenstam's pension commitments consist of defined contribution pension plans, where the company having no obligations other than to pay an annual premium during the period of employment. This means that after employment has been terminated, the employee is entitled to decide the period during which the earlier defined contribution payments and the return on these is taken out as pension. An exception exists in respect of the individuals covered by defined benefit ITP plans with ongoing payments to Alecta under ITP 2. According to UFR 10 of the Swedish Accounting Standards Council, the requirements to recognize an ITP 2 plan financed through insurance with Alecta as a defined benefit plan do not exist, and for this reason this plan is recognized as defined contribution according to IAS 19. Annual premiums for pensions with Alecta amounted to SEK 6.6 million (6.2). Alecta's surplus can be divided between the policyholders or the insured individuals. Alecta's surplus in the form of the latest provisional official consolidation level was 153 percent (144). The collective consolidation level is defined as the market value of Alecta's assets as a percentage of the insurance commitments calculated in accordance with Alecta's actuarial calculation assumptions. The contributions are recognized as employee benefit expenses as they are earned.

Employee synthetic options scheme

Share-based payment is recognized according to IFRS 2. In September 2013, all permanently employed personnel were offered synthetic options. Synthetic options to employees are measured according to the Black & Scholes model on closing day. In the event of a maximum outcome based on the prevailing number of options issued and an achieved closing price of SEK 80 per share for least 5 days over a 30-day period, this will generate an expense for the company of around SEK 139 million. Because the probability has increased considerably that the scheme will enter into effect earlier than its final date (31 May 2019), the sold purchase option value, with a ceiling of SEK 80, is deemed to be SEK 0 million. Volatility is calculated as the estimated future volatility during the remaining term of the options. Changes in value are recognized under "Unrealized change in value, synthetic

NOTE 1. GROUP ACCOUNTING PRINCIPLES, CONT.

options". The company's expense for social security contributions on initially identified assessed benefit values is recognized when the option is subscribed for under "Management costs and administrative expenses". For further details see also Note 7.

Termination benefits

A provision is recognized in connection with the termination of employment only if the company has been obliged to terminate employment before the normal date or when compensation is offered as an incentive for voluntary redundancy. The provision and expense is recognized for the period during which the company does not receive any service in return.

Pledged assets

Securities are pledged for the Group's obligations, mainly in the form of mortgage deeds for properties. Security for the financing of wind farms is provided by transfer of leases and pledging of shares in wind power companies. No security is provided for bonds or commercial paper programs. For commercial paper, there is a back-up facility equivalent to the outstanding commercial paper volume.

Contingent liabilities

A contingent liability refers to a possible commitment arising from past events and whose existence is only confirmed when one or more uncertain future events occur or when there is a commitment that is not recognized as a liability or provision because it is unlikely that an outflow of resources will be required.

Changes in Swedish rules and regulations

Swedish Financial Reporting Board

Changes made in 2015 have not had any impact on Wallenstam's reporting.

Changes in accounting principles and disclosures

New and revized standards approved by the EU

No new or amended standards and new interpretations which entered into force in 2015 had any impact on Wallenstam's financial reporting.

New standards and amendments to standards which entered into force in 2015

The standards that became effective during 2015, and that may potentially affect Wallenstam's future financial reporting, are IFRS 3 Business Combinations, IFRS 13 Fair Value Measurement and IAS 40 Investment Property.

IFRS 3 has been clarified regarding the scope exception from application to exclude the formation of the joint arrangement in the financial statements of the joint arrangement. IFRS 13 clarifies the scope exception for measuring the fair value of portfolios. The changes in IAS 40 have meant a clarification in the relationship between IAS 40 and IFRS 3, which in practice means that when a company makes the assessment that an acquired investment property is a business combination or an acquisition of an asset or group of assets, it should be based on the rules in IFRS 3 Business Combinations.

New standards and interpretations which enter into force in 2016

The following standards have been amended and the amendment will become effective from 2016;

- IAS 1 Presentation of Financial Statements (The concept of materiality)
- IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets (Clarification of acceptable methods of depreciation and amortization),
- IAS 16 Property, Plant and Equipment and IAS 41 Agriculture - Recognition and Measurement of Biological Assets and Agricultural Produce,
- IAS 19 Employee Benefits (Defined benefit plans: employee contributions),
- IAS 27 Separate Financial statements (Equity method in separate financial statements),
- IFRS 11 Joint Arrangements (Acquisitions of shares in joint operations).

The future amendments in standards will impact Wallenstam's income statement and balance sheet to a limited extent, or not at all.

NOTE 2. FINANCING AND FINANCIAL RISKS

To optimize the terms of the loan portfolio, the Group's borrowing is generally guaranteed by the parent company. We mainly have conventional loans with mortgages secured against property. The financing of wind farms is mainly secured through the bond market. No collateral is provided for outstanding bond loans or the commercial paper program.

Interest-bearing liabilities, which mainly comprise conventional bank loans combined with interest rate derivatives, amounted to SEK 15,153 million (15,078), of which SEK 1,599 million (1,228) is non-current. The current portion includes a commercial paper program with a limit of SEK 2 billion (2).

At 31 December 2015, the commercial paper liability amounted to SEK 1,591 million (1,441). In addition to bank loans and the commercial paper program, Wallenstam has also borrowed capital on the bond market to partly finance the wind power companies. Wallenstam AB issued two bonds in June 2014 with a term of three years, maturity in 2017, of which one bond is for SEK 400 million with variable interest (STIBOR 3M + 110 points) and the other is for SEK 200 million with interest fixed at 2.125 percent. Wallenstam AB issued a Green bond of SEK 500 million in March 2015 with a term of four years, maturity in 2019, with variable interest (STIBOR 3M + 110 points). There are covenants associated with the bonds; see the financing risk section.

FINANCIAL RISK FACTORS

In addition to operational and external risks, through its operations Wallenstam is exposed to various financial risks such as interest rate risk, liquidity risk, currency risk and financing risk. These risks arise in the Group's reported financial instruments such as cash and cash equivalents, interest-bearing receivables, trade receivables, trade payables, borrowings and derivatives.

FINANCIAL RISK MANAGEMENT

Risk management is handled by the finance department in accordance with the finance policy that is reviewed annually and approved by the Board. The policy describes the purpose, organization and distribution of duties for financing activities, along with rules for financial risk management. The overall aims of the finance policy are based on its task of:

- Securing the Group's supply of capital in the short and long term.
- Adapting the financial strategy to the Group's operations to achieve an optimal capital structure.
- Working actively to achieve a low level of refinancing risk and high flexibility in respect of fixed-interest terms and collateral
- Achieving the best possible level of net financial items within a given risk framework.