

THE PARENT COMPANY

Parent company income statement

Amounts in SEK millions, 1 January–31 December	Note	2005	2004
Net sales	4, 5	26,843	26,046
Cost of products sold	6	-16,415	-16,134
Gross profit		10,428	9,912
Selling expenses		-872	-752
Administrative expenses		-1,320	-1,243
Research and development costs		-165	-142
Other operating income	7	162	94
Other operating expenses	8	-90	-31
Operating profit	9	8,143	7,838
Result from participations in Group companies	10	414	1,121
Result from participations in associated companies	11	26	23
Results from other long-term securities holdings	12	-3	445
Interest income and similar profit/loss items	13	1,853	1,571
Interest expenses and similar profit/loss items	14	-6,037	-2,018
Group contributions		1,771	2,522
Profit before appropriations and tax		6,167	11,502
Appropriations	15	-709	-2,127
Profit before tax		5,458	9,375
Income tax expense	16	-1,873	-2,340
Profit for the year		3,585	7,035

Parent company balance sheet

Amounts in SEK millions	Note	31 Dec 2005	31 Dec 2004
Assets			
Non-current assets			
Intangible assets			
Capitalised development costs	17	237	-
Concessions, patents, licences, trademarks and similar rights		10	13
Renting and similar rights		23	25
Total intangible assets		270	38
Property, plant and equipment			
Land and buildings	18	11,009	10,973
Plants and machinery and other technical installations		7,147	7,234
Equipment, tools, and fixtures and fittings		33	35
Construction in progress		1,224	1,919
Total property, plant and equipment		19,413	20,161
Financial non-current assets			
Participations in Group companies	19, 20	41,742	40,533
Receivables from Group companies	21	4,316	4,335
Participations in associated companies	19, 20	10,860	540
Receivables from associated companies	21	2,183	1,790
Other long-term securities holdings	19, 20	37	55
Deferred tax assets	16	63	81
Other non-current receivables	21	261	148
Total financial non-current assets		59,462	47,482
Total non-current assets		79,145	67,681
Current assets			
Inventories	22	296	278
Current receivables	23	43,488	31,111
Cash and cash equivalents	24	2,360	142
Total current assets		46,144	31,531
Total assets		125,289	99,212
Equity, provisions and liabilities			
Equity			
Restricted equity			
Share capital (131,700,000 shares with at a par value of SEK 50)		6,585	6,585
Statutory reserve		1,286	1,286
Non-restricted equity			
Retained earnings		12,496	10,043
Profit for the year		3,585	7,035
Total equity		23,952	24,949
Untaxed reserves	15	14,978	14,269
Provisions	25	120	86
Non-current interest-bearing liabilities			
Non-current non-interest-bearing liabilities	26	58,700	40,398
Liabilities	27	2,826	2,818
Total non-current liabilities		61,526	43,216
Current interest-bearing liabilities			
Current tax liabilities	28	10,383	5,251
Other current non-interest-bearing liabilities	16	156	1,280
Liabilities	29	14,174	10,161
Total current liabilities		24,713	16,692
Total equity, provisions and liabilities		125,289	99,212
Pledged assets	30	2,246	20
Contingent liabilities	31	95,122	79,251
Commitments under consortium agreements	32		

PARENT COMPANY NOTES

(Amounts in SEK millions unless otherwise stated.)

Parent company statement of changes in equity

Amounts in SEK millions	Share capital	Statutory reserve	Non-restricted equity	Total
Balance brought forward 2004	6,585	1,286	12,017	19,888
Dividend to shareholders	-	-	-2,400	-2,400
Group contributions	-	-	43	43
Tax effect of Group contributions	-	-	-12	-12
Result from mergers	-	-	395	395
Profit for the year	-	-	7,035	7,035
Balance carried forward 2004	6,585	1,286	17,078	24,949
Dividend to shareholders	-	-	-5,600	-5,600
Group contributions	-	-	-136	-136
Tax effect of Group contributions	-	-	38	38
Result from mergers	-	-	1,116	1,116
Profit for the year	-	-	3,585	3,585
Balance carried forward 2005	6,585	1,286	16,081	23,952

As of 31 December 2005 the registered share capital comprised 131,700,000 shares at a par value of SEK 50 each.

Parent company cash flow statement

Amounts in SEK millions, 1 January-31 December	2005	2004
Operating activities		
Funds from operations (FFO)		
Profit for the year	3,585	7,035
Adjustments for the effects of items not included in the cash flow:		
Income tax expense	1,873	2,340
Appropriations	709	2,127
Depreciation and amortisation	731	752
Dividend-contingent Group contributions	-1,771	-2,523
Change in tax liabilities and tax assets	-1,142	-1,071
Unrealised exchange rate effects	1,852	-426
Increase in provisions	34	19
Other	-150	815
Cash flow from changes in operating assets and operating liabilities	-11,827	-11,821
Cash flow from operating activities	-6,106	-2,753
Investment activities		
Investments in Group companies, associated companies and other long-term securities holdings	-11,607	-2,244
Investments in property, plant and equipment and intangible assets	-1,445	-1,427
Divestments of property, plant and equipment	1,166	40
Divestments of shares and participations	157	451
Cash flow from investment activities	-11,729	-3,180
Cash flow before financing activities	-17,835	-5,933
Financing activities		
Loans raised	23,133	6,275
Group contributions received	2,520	2,167
Dividend paid to shareholders	-5,600	-2,400
Cash flow from financing activities	20,053	6,042
Cash flow for the year	2,218	109
Cash and cash equivalents		
Cash and cash equivalents at the beginning of the year	142	33
Cash flow for the year	2,218	109
Cash and cash equivalents at the end of the year	2,360	142

Interest paid totalled SEK 2,519 million (1,754) and interest received totalled SEK 806 million (842). Tax paid totalled SEK 3,015 million (1,071).

Note 1 Company information

The Annual Report for Vattenfall AB for 2005 has been approved in accordance with a decision by the Board of Directors of 22 February 2006. Vattenfall AB, which is the parent company in the Vattenfall Group, is a limited liability company with its registered office in Stockholm and with the address SE-162 87 Stockholm, Sweden. The balance sheet and income statement of the parent company will be adopted at the annual general meeting (AGM).

Note 2 Accounting principles

General

The parent company Vattenfall AB's accounts have been prepared in accordance with the Swedish Annual Accounts Act and the recommendations of the Swedish Financial Accounting Standards Council.

The accounting principles applied are stated in the applicable parts of Note 2 of the consolidated accounts with the following amendments for the parent company Vattenfall AB. The parent company does not apply IAS 39 concerning financial instruments.

New accounting principles

The Swedish Financial Accounting Standards Council's recommendation RR 32 – Reporting for Legal Entities came into force on 1 January 2005 and shall be applied by legal entities whose securities are listed on a Swedish stock exchange or other authorised market on the balance sheet date. In the case of the consolidated accounts such Swedish companies shall apply the EU regulation on international accounting principles while continuing to apply the Swedish Annual Accounts Act in the preparation of the legal entity's accounts. RR 32 states that in general Swedish listed companies shall apply the IFRS applied in the consolidated accounts and specify the exceptions and amendments due to legal provisions, primarily the Swedish Annual Accounts Act, and the connection between statutory financial reporting and the reporting for tax purposes. Vattenfall AB already applies the recommendations of RR 32.

Depreciation and amortisation

Depreciation/amortisation is calculated, as in the consolidated accounts, from cost and is applied on a straight-line basis over the estimated useful life of the asset. In addition, certain accelerated depreciation/amortisation (the difference between depreciation/amortisation according to plan and depreciation/amortisation for tax purposes) in the parent company is reported under appropriations and untaxed reserves respectively.

Pension provisions

Pension obligations in the parent company are calculated in accordance with generally accepted Swedish actuarial principles. The provision reported in the balance sheet corresponds to these pension obligations, entered net against the available capital in Vattenfall's Pension Foundation.

Income tax expense

Tax legislation in Sweden allows companies to defer tax payments by making provisions to untaxed reserves. In the parent company, untaxed reserves are reported as a separate item in the balance sheet that includes deferred tax. In the parent company's income statement, provisions to untaxed reserves and dissolution of untaxed reserves are reported under "Appropriations".

The recognised income tax expense of the parent company, Vattenfall AB, consists of income tax on profit after appropriations.

Note 3 Exchange rates

See Note 6 of the consolidated accounts.

Note 4 Net sales

	2005	2004
Sales including indirect taxes	29,105	28,104
Indirect taxes	-2,262	-2,058
Net sales	26,843	26,046

Net sales per geographic area

	2005	2004
Nordic Countries	25,723	24,960
Germany	739	717
Poland	321	311
Other	60	58
Total	26,843	26,046

Net sales per segment

	2005	2004
Electricity Generation	6,834	6,631
Electricity Market	17,656	17,132
Heat	2,253	2,186
Other	100	97
Total	26,843	26,046

Note 5 Intra-Group transactions

Of the parent company's total income from sales and total purchase costs, transactions with Group companies account for 9 per cent (11) of sales and 52 per cent (51) of purchase costs.

Note 6 Cost of products sold

Direct costs include production taxes and duties of SEK 191 million (210) and property taxes of SEK 260 million (233).

Note 7 Other operating income

Other operating income primarily comprises capital gains from the sale of non-current assets, rental income, insurance compensation and operationally derived foreign exchange gains.

Note 8 Other operating expenses

Other operating expenses primarily consists of capital losses on divestments of non-current assets and operationally derived exchange rate losses.

Note 9 Depreciation and amortisation

	2005	2004
Cost of products sold	721	742
Selling expenses	8	9
Administrative expenses	2	1
Total	731	752

Note 10 Result from participations in Group companies

	2005	2004
Dividends	351	2,384
Impairment losses	-11	-1,263
Capital gains/losses on divestments	74	-
Total	414	1,121

Note 11 Result from participations in associated companies

Fully attributable to dividends from associated companies totalling SEK 26 million (23).

Note 12 Result from other long-term securities holdings

	2005	2004
Dividends	2	1
Impairment losses	-1	-5
Capital gains/losses on divestments	-4	449
Total	-3	445

Note 13 Interest expenses and similar profit/loss items

	2005	2004
Interest income from subsidiaries	362	563
Other interest income	444	280
Foreign exchange gains	1,047	728
Total	1,853	1,571

Note 14 Interest expenses and similar profit/loss items

	2005	2004
Interest expenses to subsidiaries	2,494	1,733
Other interest expenses	25	22
Foreign exchange losses	3,518	263
Total	6,037	2,018

Note 15 Appropriations and untaxed reserves

	Balance brought forward	Provision/Dis-solution (-)	Balance carried forward
Accelerated depreciation	6,601	-186	6,415
2000 Tax allocation reserve	842	-842	0
2001 Tax allocation reserve	464	-	464
2002 Tax allocation reserve	1,371	-	1,371
2003 Tax allocation reserve	963	-	963
2004 Tax allocation reserve	1,295	-	1,295
2005 Tax allocation reserve	2,733	-	2,733
2006 Tax allocation reserve	-	1,737	1,737
Total	14,269	709	14,978

Note 16 Income tax expense

The reported income tax expense breaks down as follows:

	2005	2004
Current tax	1,855	2,335
Deferred tax	18	5
Total	1,873	2,340

The income tax expense for the year attributable to previous years amounts to SEK -396 million (-52). Deferred tax assets according to the balance sheet amount to SEK 63 million (81). Current tax liabilities amount to SEK 156 million (1,280). The tax effect of the standard tax interest on tax allocation reserves amounts to SEK 61 million (0).

The difference between the nominal Swedish tax rate and the effective tax rate is explained in the following manner:

Per cent	2005	2004
Swedish income tax rate	28.0	28.0
Appropriations	-3.2	-5.2
Tax adjustment for previous periods	6.4	0.5
Standard interest rate on tax allocation reserves	1.0	0.0
Non-taxable income	-2.6	-6.3
Non-deductible expenses	1.1	3.3
Other	-0.3	0.1
Effective tax rate¹	30.4	20.4
Tax rate, current tax ²	30.1	20.3

1) Tax expense according to the parent company's income statement in relation to profit before appropriations and tax.

2) Tax expense according to the parent company's income statement excluding reported deferred tax in relation to profit before appropriations and tax.

Note 17 Intangible assets

	Capitalised development costs		Goodwill		Concessions and similar rights		Renting and similar rights		Total	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
Acquisition values										
Acquisition values brought forward	-	-	13	13	340	354	61	64	414	431
Investments	161	-	-	-	-	-	-	-	161	0
Divestments/Disposals	-	-	-	-	-	-	-	-3	0	-3
Reclassifications	76	-	-	-	4	-14	-	-	80	-14
Accumulated acquisition value carried forward	237	0	13	13	344	340	61	61	655	414
Accumulated depreciation according to plan										
Depreciation brought forward	-	-	-13	-13	-327	-323	-36	-5	-376	-341
Depreciation for the year	-	-	-	-	-7	-7	-2	-32	-9	-39
Divestments/Disposals	-	-	-	-	-	-	-	1	0	1
Reclassifications	-	-	-	-	-	3	-	-	0	3
Accumulated depreciation carried forward	0	0	-13	-13	-334	-327	-38	-36	-385	-376
Residual value according to plan carried forward	237	0	0	0	10	13	23	25	270	38
Accumulated accelerated depreciation	-71	-	-	-	-10	-13	-23	-25	-104	-38
Book value	166	0	0	0	0	0	0	0	166	0

Note 18 Property, plant and equipment

	Buildings and land ¹		Plants and machinery and other technical installations		Equipment, tools, and fixtures and fittings		Construction in progress		Total	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
Cost										
Cost brought forward	16,422	16,147	14,867	13,528	176	170	1,919	454	33,384	30,299
Merged plants	-	237	-	1,120	-	13	-	497	0	1,867
Investments	-	-	2	-	12	9	1,270	1,418	1,284	1,427
Transfer from construction in progress	684	45	953	389	1	-	-1,896	-434	-258	0
Divestments/Disposals	-485	-7	-946	-184	-23	-16	-4	-	-1,458	-207
Reclassifications	-9	-	236	14	-	-	-65	-16	162	-2
Accumulated cost carried forward	16,612	16,422	15,112	14,867	166	176	1,224	1,919	33,114	33,384
Accumulated depreciation according to plan										
Depreciation brought forward	-5,449	-5,087	-7,633	-6,659	-141	-136	-	-	-13,223	-11,882
Merged plants	-	-129	-	-647	-	-7	-	-	0	-783
Depreciation for the year	-239	-235	-470	-465	-13	-13	-	-	-722	-713
Divestments/Disposals	83	2	138	145	21	15	-	-	242	162
Reclassifications	2	-	-	-7	-	-	-	-	2	-7
Accumulated depreciation carried forward	-5,603	-5,449	-7,965	-7,633	-133	-141	0	0	-13,701	-13,223
Residual value according to plan carried forward	11,009	10,973	7,147	7,234	33	35	1,224	1,919	19,413	20,161
Accumulated accelerated depreciation	-	-	-6,278	-6,053	-33	-30	-	-	-6,311	-6,083
Book value	11,009	10,973	869	1,181	0	5	1,224	1,919	13,102	14,078

1) Cost for land and buildings includes cost for land and water rights amounting to SEK 6,618 million (6,695), which are not subject to depreciation.

Tax assessment values (for Swedish real estate)

	2005	2004
Buildings	34,389	34,067
Land	20,970	20,973
Total	55,359	55,040

Distribution lines and transformer stations are not subject to tax assessment values.

Note 19 Participations in Group companies, associated companies and other long-term securities holdings

	Participations in Group companies		Participations in associated companies		Other long-term securities holdings	
	2005	2004	2005	2004	2005	2004
Balance brought forward	40,533	40,532	540	538	55	58
Investments/acquisitions	1,276	2,244	10,331	-	-	2
Shareholders' contributions ¹	-	2	-	2	-	-
Divestments ¹	-56	-2	-4	-	-23	-1
Reclassifications	-	-	-7	-	7	-
Merged shareholdings	-	-977	-	-	-	-
Impairment losses	-11	-1,266	-	-	-2	-4
Balance carried forward	41,742	40,533	10,860	540	37	55

1) Shareholders' contributions and divestments are mainly attributable to restructuring in the Group.

Note 20 Shares and participations

For a breakdown of the parent company's shares and participations in Group companies, associated companies and other long-term securities holdings, see Notes 23–25 of the consolidated accounts.

Note 21 Receivables from Group companies, associated companies and other non-current receivables

	Receivables from Group companies		Receivables from associated companies		Other non-current receivables	
	2005	2004	2005	2004	2005	2004
Balance brought forward	4,335	4,022	1,790	1,909	148	132
New receivables	260	313	1	12	122	30
Payments received	-	-	-49	-117	-2	-14
Reclassifications	-279	-	441	-14	-7	-
Balance carried forward	4,316	4,335	2,183	1,790	261	148

Note 22 Inventories

	2005	2004
Emission allowances	36	-
Oil	154	158
Coal	10	100
LPG	1	-
Peat	47	-
Biofuel	28	-
Materials and spare parts	20	20
Total	296	278

Note 23 Current receivables

	2005	2004
Accounts receivable-trade	2,717	2,678
Receivables from Group companies	34,421	23,122
Receivables from associated companies	55	2,028
Other receivables	4,209	1,803
Prepaid expenses and accrued income	2,086	1,480
Total	43,488	31,111

Breakdown of prepaid expenses and accrued income:

	2005	2004
Prepaid insurance premiums	9	10
Prepaid expenses, other	163	110
Prepaid expenses and accrued income, electricity	1,839	516
Accrued income, other	75	844
Total	2,086	1,480

Note 24 Cash and cash equivalents

The parent company's cash and bank balances are administered by the subsidiary Vattenfall Treasury AB. Funds in the Group account amounted to SEK 30,892 million (22,533) and are reported in the balance sheet as current receivables from Group companies. The parent company's external cash and bank balances amount to SEK 2,360 million (142).

Note 25 Provisions

	2005	2004
Pension provisions	-	10
Personnel-related provisions for non-pension purposes	120	76
Total	120	86
	2005	2004
Pension obligations ¹	2,617	2,606
Less: Capital in pension funds	-2,617	-2,596
Total pension provisions at year-end	0	10
1) Information registered by PRI	1,530	1,493

Note 26 Non-current interest-bearing liabilities

Fully attributable to liabilities to Group companies in the amount of SEK 58,700 million (40,398), of which SEK 18,615 million (8,923) fall due after more than five years.

Liabilities to Group companies are mainly attributable to long-term borrowings from Vattenfall Treasury AB.

Virtually all borrowings in foreign currencies are hedged.

Note 27 Non-current non-interest bearing liabilities

	2005	2004
Liabilities to Group companies	2,134	2,508
Other liabilities	692	310
Total	2,826	2,818

Liabilities to Group companies are mainly attributable to long-term liabilities to Forsmarks Kraftgrupp AB and others for power charges. For the latter liability there shall be, in accordance with an agreement between the co-owners, no interest payable on the debt. Of other liabilities, SEK 333 million (78) falls due after more than five years.

Note 28 Current interest-bearing liabilities

Fully attributable to liabilities to Group companies totalling SEK 10,383 million (5,251).

Note 29 Other current non-interest-bearing liabilities

	2005	2004
Advance payments from customers	37	9
Accounts payable-trade	629	534
Liabilities to Group companies	12,013	8,179
Liabilities to associated companies	29	27
Other liabilities	606	578
Accrued expenses and deferred income	860	834
Total	14,174	10,161

Breakdown of accrued expenses and deferred income:

	2005	2004
Accrued personnel-related costs	215	247
Other accrued expenses	352	533
Deferred income and accrued expenses, electricity	287	32
Other deferred income	6	22
Total	860	834

Note 30 Pledged assets

	2005	2004
Blocked bank funds as security for trading on Nord Pool	2,246	19
Other	-	1
Total	2,246	20

Note 32 Commitments under consortium agreements

See Note 44 of the consolidated accounts.

Note 33 Average number of employees and personnel costs

Average number employees	2005			2004		
	Men	Women	Total	Men	Women	Total
Sweden	810	296	1,106	955	494	1,449
Other countries	3	-	3	2	1	3
Total	813	296	1,109	957	495	1,452

Personnel costs

	2005	2004
Salaries and other remuneration	501	712
Social security expenses (of which pension obligations) ¹	426	508
	(194)	(197)
Total	927	1,220

1) SEK 8 million (7) of the pension costs are attributable to the group comprising current senior executive officers and former senior executive officers. The company's outstanding pension obligations attributable to these officers total SEK 44 million (41).

None of the Board members receives any pension benefits in connection with Board duties.

Note 31 Contingent liabilities

	2005	2004
Guarantees		
of which:		
for Vattenfall Treasury's lending:		
to subsidiaries	20,797	18,519
to associated companies	36	37
external borrowing for subsidiaries	58,991	51,665
external borrowing for other companies	14	14
subordinated guarantees	48	40
Swedish Nuclear Waste Fund	5,377	3,779
Contract guarantees	677	761
Other guarantees	9,182	4,436
Total	95,122	79,251
Other contingent liabilities		
Compensatory and free power deliveries:		
Wholesale power deliveries		
Number of commitments	13	13
Power MW	223	17
Energy deliveries, TWh/year	0.9	0.9

SEK 91,088 million (78,900) of the parent company's contingent liabilities are attributable to its subsidiaries. Vattenfall AB has guaranteed Vattenfall Treasury AB's commitments.

As security for the energy trading of the subsidiary Vattenfall Europe Trading GmbH, Vattenfall AB has provided guarantees to a total value of EUR 525 million (140), equivalent to SEK 4,951 million (1,256). On the balance sheet date, utilised guarantees totalling EUR 271 million (14), equivalent to SEK 2,558 million (124), were included in the reported contingent liabilities.

See also Note 43 of the consolidated accounts.

Salaries and other remuneration	2005			2004		
	Board members and senior executive officers ¹	Others employees	Total	Board members and senior executive officers ¹	Others employees	Total
Sweden	24	477	501	16	693	709
Other countries	–	–	0	–	3	3
Total²	24	477	501	16	696	712

1) Board members and senior executive officers also include alternates, vice presidents and former Board members, alternates, presidents and vice presidents.

2) Total salaries and other remuneration to Board members and presidents include bonuses of SEK 8 million (2).

For benefits to senior executive management within Vattenfall, see Note 45 of the consolidated accounts.

Note 34 Absenteeism through sickness

Absenteeism through sickness as a percentage of normal working hours throughout the year.

	Parent company Vattenfall AB		Vattenfall Group, Swedish operations	
	2005	2004	2005	2004
Total absenteeism through sickness	3.5	4.0	4.1	4.0
Absenteeism through sickness:				
–for women	6.2	7.1	6.3	6.6
–for men	2.2	2.3	3.4	3.3
–for those aged 29 and younger	4.5	4.9	3.4	3.4
–for those aged 30–49 years	3.4	4.2	3.6	3.4
–for those aged 50 and above	2.9	3.3	5.3	4.7
Percentage of absenteeism through sickness lasting 60 days or more	38.6	41.0	43.8	49.0

Note 35 Gender distribution among executive management

	Women, %		Men, %	
	2005	2004	2005	2004
Gender distribution among Board members	15	14	85	86
Gender distribution among other executive management	10	10	90	90

Note 36 Leasing

Leasing expenses

Future payment commitments, as of 31 December 2005, for leasing contracts and rental contracts break down as follows:

	Financial leasing	Operating leasing
2006	–	12
2007	–	10
Total	0	22

Leasing expenses for the year attributable to the parent company amounted to SEK 11 million (11).

Leasing revenues

Vattenfall AB owns and operates energy facilities on behalf of customers. Revenues from customers breaks down into two components – a fixed component to cover capital expenses and a variable component based on the quantity delivered.

Facilities are classified in accordance with standard leasing principles, based on the fixed revenue component.

On 31 December 2005, cost of assets reported under Operating leasing amounted to SEK 1,016 million (1,219). Accumulated depreciation amounted to SEK –341 million (–342) and accumulated impairment losses to SEK –30 million (–30). A number of facilities were sold to a subsidiary during the year.

Future payments for this type of facility break down as follows:

	Financial leasing	Operating leasing
2006	1	47
2007	1	43
2008	1	41
2009	1	39
2010	1	34
2011 and beyond	5	238
Less: Financial income	–4	–175
Total	6	267

Note 37 Remuneration to auditors etc.

	2005	2004
Statutory audit		
Ernst & Young	7	6
Swedish National Audit Office	1	1
Total	8	7
Other remuneration		
Ernst & Young ¹	5	5
PricewaterhouseCoopers	1	1
Total	6	6

1) About SEK 3 million (3) is attributable to consultations for personnel based outside Sweden.

Note 38 Transactions with related parties

See Note 49 of the consolidated accounts.