

CONSOLIDATED INCOME STATEMENT

Amounts in SEK million, 1 January–31 December	Note	2006	2005
Net sales	5, 6	145,815	129,158
Cost of products sold ¹	7	-106,857	-93,636
Gross profit		38,958	35,522
Other operating income	8	2,319	5,397
Selling expenses	9	-5,734	-5,844
Administrative expenses	9	-7,806	-6,639
Research and development costs	9	-765	-651
Other operating expenses	10	-1,257	-748
Participations in the results of associated companies	6, 22	1,334	534 ⁷
Operating profit (EBIT)²	6, 11, 12, 13, 46, 47	27,049	27,571⁷
Financial income ³	14	3,839	3,810
Financial expenses ⁴	15	-5,363	-5,221
Profit before tax⁵		25,525	26,160⁷
Income tax expense	16	-5,667	-5,642 ⁷
Profit for the year⁶		19,858	20,518
Attributable to			
Equity holders of the Parent Company		18,729	19,235
Minority interests	17	1,129	1,283
Total		19,858	20,518
Earnings per share			
Number of shares in Vattenfall AB, thousands		131,700	131,700
Earnings per share, SEK		142.21	146.05
Dividend, SEK million		7,500 ⁸	5,800
Dividend per share, SEK		56.95 ⁸	44.04
Supplementary information			
Operating profit before depreciation and amortisation (EBITDA)		43,166	42,383
Financial items, net excl. discounting effects attributable to provisions and returns from the Swedish Nuclear Waste Fund		-1,618	-1,440
1) Of which, depreciation, amortisation and impairment losses		-15,007	-14,290
2) Of which, depreciation, amortisation and impairment losses		-16,117	-14,812
2) Including items affecting comparability attributable to:			
Capital gains/losses		373	-71
Closure of Barsebäck 2		-	3,057
3) Including returns from the Swedish Nuclear Waste Fund		2,106	2,089
4) Including discounting effects attributable to provisions excl. of pension provisions		-2,012	-2,060
5) Including items affecting comparability attributable to:			
Capital gains/losses		384	-63
Closure of Barsebäck 2		-	3,057
6) Including items affecting comparability stated above adjusted for tax		386	3,154
7) These figures are adjusted compared to previously published information in Vattenfall's 2005 Annual Report. See Note 2 to the consolidated accounts, Accounting Principles.			
8) Proposed dividend.			

Comments

Net sales and earnings

Net sales rose 12.9% to SEK 145,815 million (129,158). Sales increased despite significantly lower nuclear power and hydro power generation and can be credited to higher wholesale electricity prices and the consolidation of the combined heat and power and wind power assets acquired in Denmark.

The cost of products sold rose 14.1% to SEK 106,857 million (93,636) and is mainly attributable to higher wholesale electricity prices, which increased the cost of purchased power. Higher property taxes on hydro power assets, a tax on installed nuclear power capacity, higher fuel costs and the impairment loss of network assets in Germany also contributed to the increase.

Depreciation increased by 3.9% to SEK 14,574 million (14,026). See Note 13 to the consolidated accounts. In 2006 the depreciation schedule for the Group's Swedish nuclear power plants was changed from 25 to 40 years, which decreased depreciation of these nuclear power plants by SEK 505 million.

The decrease in Other operating income is mainly due to the booking in 2005 of SEK 4,100 million (gross) in compensation from the Swedish state for future loss of production caused by the closure of Barsebäck 2.

Participations in the results of associated companies improved to SEK 1,334 million (534). This pertains primarily to Elsam A/S, totalling SEK 359 million, and the partly owned German nuclear power companies, totalling SEK 357 million.

Operating profit decreased by 1.9% to SEK 27,049 million (27,571). This is partly explained by higher Swedish generation taxes, totalling approximately SEK 1,700 million, one-time provisions of SEK 1,445 million, and impairment losses totalling SEK 1,568 million. The net effect of higher prices and lower generation volumes was approximately SEK 6,500 million. Operating profit in 2005 was positively affected in the amount of SEK 3,057 million, net, by the compensation from the Swedish state for the closure of Barsebäck 2.

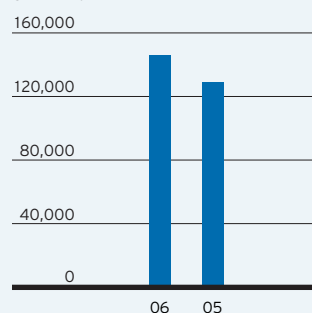
Excluding items affecting comparability (mainly the compensation for the closure of Barsebäck 2, totalling SEK 3,057 million, net, which was booked in 2005), operating profit rose 8.5% to SEK 26,676 million (24,585). This increase is mainly attributable to Germany and stems from higher wholesale electricity prices, a better outcome from hedged electricity generation and slightly higher generation volumes.

A breakdown of operating profit by Vattenfall's markets (primary and secondary segments) is provided in Note 6 to the consolidated accounts.

Net financial items amounted to SEK -1,524 million (-1,411), a deterioration of 8.0%. The deterioration is mainly due to lower revenues pertaining to changes in value when reassessing the value of derivatives. The balance of net interest income and expense was virtually unchanged compared with 2005. Net interest expense averaged SEK -165 million (-166) per month.

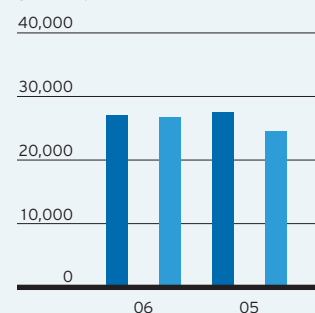
Net sales

SEK million



Operating profit

SEK million



■ Operating profit
■ Operating profit (EBIT) excl. items affecting comparability

Following is a breakdown of interest income/expense and interest received/paid out:

	2006	2005	% change
Interest income	1,341	980	36.8
Interest expense	3,317	2,967	11.8
Interest received	1,054	875	20.5
Interest paid	2,927	2,230	31.3

Taxes were essentially unchanged, at SEK 5,667 million (5,642). The effective tax rate according to the income statement was 22.2% (22.0%).

Profit for the year decreased by 3.2% to SEK 19,858 million (20,518). Excluding items affecting comparability, profit increased by 12.1% to SEK 19,472 million.

Return on equity decreased to 19.1% (23.2%). Excluding items affecting comparability, return on equity was 18.7% (19.4%). The return on net assets decreased to 16.6% (17.8%). Excluding items affecting comparability, the return on net assets was 16.3% (15.8%).

Segments

The Group's operations are divided into primary and secondary segments. Primary segments consist of geographic areas: the Nordic countries, Germany, Poland and Other.

Secondary segments consist of the Group's business segments: Electricity Generation, Electricity Markets, Electricity Networks, Heat and Other Operations. For the reporting of sales and operating profit for primary and secondary segments, see Note 6 to the consolidated accounts. For comments on sales and profit as well as key ratios for the primary segments – Nordic countries, Germany and Poland – see pages 36–43.

CONSOLIDATED BALANCE SHEET

Amounts in SEK million	Note	31 Dec 2006	31 Dec 2005
Assets	6		
Non-current assets			
Intangible assets: non-current	18	4,260	5,267
Property, plant and equipment	19	201,328	189,016
Investment property	20	936	1,256
Participations in associated companies	22	12,126	23,421
Other shares and participations	23	1,254	747
Share in the Swedish Nuclear Waste Fund	24	23,321	21,403
Current tax assets, long-term	16	1,241	–
Other long-term receivables	25	5,620	4,285
Deferred tax assets	16	1,807	14,569
Total non-current assets		251,893	259,964
Current assets			
Inventories	26	9,384	7,314 ¹
Intangible assets: emission allowances	27	746	–
Trade receivables and other receivables	28	32,499	37,947
Prepaid expenses and accrued income	29	4,338	4,459
Current tax assets	16	2,138	1 310
Short-term investments	30	7,534	8,025
Cash and cash equivalents	31	14,634	6,049
Total current assets		71,273	65,104
Total assets		323,166	325,068
Equity and liabilities			
Equity attributable to holders of the Parent Company			
Share capital		6,585	6,585
Translation reserve		1,467	2,949
Reserve for cash flow hedges		–5,811	–10,388
Retained earnings incl. profit for the year		94,348	81,419 ¹
Total equity attributable to holders of the Parent Company		96,589	80,565¹
Equity attributable to minority holders		11,085	10,344
Total equity		107,674	90,909¹
Non-current liabilities	6		
Capital Securities	32, 34	8,911	9,268
Other interest-bearing liabilities	33, 34	46,868	59,865
Interest-bearing provisions	35	45,364	42,976
Pension provisions	36	16,877	17,432
Deferred tax liabilities	16	29,875	39,927 ¹
Other noninterest-bearing liabilities	37	2,320	2,425
Total non-current liabilities		150,215	171,893¹
Current liabilities	6		
Trade payables and other liabilities	38	27,676	33,906
Accrued expenses and deferred income	39	14,367	12,040 ¹
Current tax liabilities	16	3,585	2,075
Interest-bearing liabilities	40	15,796	9,530
Interest-bearing provisions	35	3,853	4,715
Total current liabilities		65,277	62,266
Total equity and liabilities		323,166	325,068

1) These figures are adjusted compared to previously published information in Vattenfall's 2005 Annual Report.

See pages 76–77, Consolidated Statement of Changes in Equity and Note 2 to the consolidated accounts, Accounting principles.

See also information on the Group's pledged assets (Note 41), contingent liabilities (Note 42) and commitments under consortium agreements (Note 43).

Comments

Assets

Total non-current assets decreased by 3.1%, or SEK 8,071 million, to SEK 251,893 million (259,964). Property, plant and equipment increased by SEK 12,312 million in connection with the takeover of combined heat and power and wind power assets in Denmark. Participations in associated companies decreased by SEK 11,295 million, to SEK 12,126 million through the transfer of the shareholding in Elsam A/S to DONG in exchange for the combined heat and power and wind power assets. The share in the Swedish Nuclear Waste Fund increased by SEK 1,918 million. Deferred tax assets decreased sharply, by SEK 12,762 million, to SEK 1,807 million, mainly due to netting against deferred tax liabilities.

Current assets increased by 9.5%, or SEK 6,169 million, to SEK 71,273 million (65,104). Inventories increased by SEK 2,070 million, mainly in association with the acquired assets in Denmark.

Short-term investments and cash and cash equivalents increased by SEK 8,094 million to a combined total of SEK 22,168 million (14,074), corresponding to 10.9% (10.9%) of sales. The increase is mainly attributable to a strong cash flow. Of this total, SEK 3,077 million (corresponding to EUR 340 million) consists of Vattenfall Europe's share of the liability insurance agreement (Solidarvereinbarung) between the German nuclear power plant operators for their commitment pursuant to the German Nuclear Liability Act.

In addition to short-term investments and cash and cash equivalents totalling SEK 22,168 million, as per 31 December Vattenfall had SEK 9,421 million (17,752) in committed credit facilities and SEK 10,059 million (10,198) in uncommitted credit facilities at its disposal.

In all, total assets decreased by 0.6% to SEK 323,166 million (325,068).

Equity and liabilities

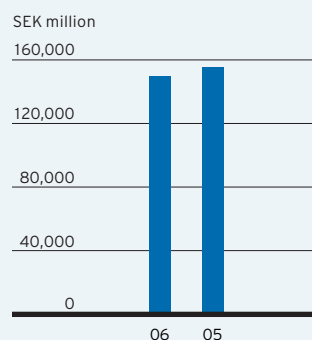
The Group's risk capital, i.e., equity attributable to shareholders of the Parent Company and to minority interests, increased by 18.4% to SEK 107,674 million (90,909). Equity attributable to shareholders of the Parent Company increased by 19.9%, while equity attributable to minority interests increased by 7.2%. The equity/assets ratio increased to 33.3% (28.0%). The reserve for cash flow hedges was changed by SEK 4,577 million to SEK -5,811 million. This item is explained in the comments on the consolidated statement of changes in equity on page 77.

Total non-current liabilities decreased by 12.3%, or SEK 21,678 million, to SEK 150,674 million (171,893). Deferred tax liabilities decreased sharply, by SEK 10,052 million, to SEK 29,875 million (39,927). This is mainly due to netting against deferred tax assets. For further details on taxes and provisions, see Notes 16, 35 and 36 to the consolidated accounts.

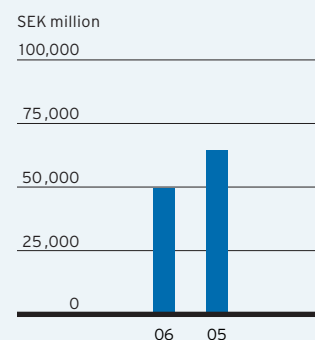
Total interest-bearing liabilities increased by 9.0% to SEK 71,575 million (78,663). This includes SEK 8,911 million (9,268) in Capital Securities issued in June 2005. The rating agencies classify most of these Capital Securities as equity (Moody's 75% and Standard & Poor's 50%). Total interest-bearing liabilities also include SEK 10,951 million (13,731) in loans from Vattenfall's minority-owned Germany nuclear power companies, and SEK 4,956 million (4,640) in loans from minority owners in Vattenfall's Swedish nuclear power plants, among others. The Group's net debt decreased by 23.2% to SEK 49,407 million (64,343).

The net debt/equity ratio was 0.46 on 31 December 2006, compared with 0.71 on 31 December 2005. For further details on the breakdown of loans according to their various types, see Notes 33 and 34 to the consolidated accounts.

Net assets



Net debt



Supplementary information

Net assets

Amounts in SEK million	31 Dec 2006	31 Dec 2005
Nordic countries	81,687	77,190
Germany	61,818	68,717
Poland	8,812	9,295
Other ¹	-4,405	-2,034
Eliminations	2,053	2,069
Total net assets	149,965	155,237
Net assets, weighted average value	151,155	143,001

1) Includes Energy Trading activities, Treasury operations and Other Group functions.

Net debt

Amounts in SEK million	31 Dec 2006	31 Dec 2005
Capital Securities	-8,911	-9,268
Other interest-bearing liabilities ¹	-62,664	-69,395
Cash and cash equivalents	14,634	6,049
Short-term investments	7,534	8,025
Loans to minority owners in foreign subsidiaries	-	246
Total net debt	-49,407	-64,343
1) Of which, loans from minority-owned German nuclear power companies.	-10,951	-13,731

CONSOLIDATED CASH FLOW STATEMENT

Amounts in SEK million, 1 January–31 December	Note	2006	2005
Operating activities			
Funds from operations (FFO) ¹		35,673	31,386
Cash flow from changes in operating assets and operating liabilities		-466	-6,963
Cash flow from operating activities		35,207	24,423
Investing activities			
Investments ²		-16,534	-24,497
Divestments ³		1,720	785
Net investments as a result of the deal between Vattenfall and DONG	3	-686	-
Cash and cash equivalents in acquired/divested companies		-147	17
Cash flow from investing activities		-15,647	-23,695
Cash flow before financing activities		19,560	728
Financing activities			
Changes in short-term investments		161	-25
Changes in loans to minority owners in foreign subsidiaries		242	3,864
Loans raised		8,187	1,562
Amortisation of debt		-13,495	-9,667
Issue of Capital Securities		-	9,248
Contribution from minority interests		55	-
Dividends paid to equity holders		-5,892	-5,778
Cash flow from financing activities		-10,742	-796
Cash flow for the year		8,818	-68
Cash and cash equivalents			
Cash and cash equivalents at the beginning of the year		6,049	5,916
Cash flow for the year		8,818	-68
Exchange rate differences		-233	201
Cash and cash equivalents at the end of the year		14,634	6,049
Supplementary information			
Cash flow before financing activities		19,560	728
Financing activities			
Dividends paid to equity holders		-5,892	-5,778
Contribution from minority interests		55	-
Cash flow after dividend		13,723	-5,050
Analysis of change in net debt			
Net debt at beginning of the year		-64,343	-55,411
Transitional effect of adoption of new accounting principles (IAS 39)		-	-584
Cash flow after dividend		13,723	-5,050
Changes as a result of valuation at fair value		1,458	-10
Interest-bearing liabilities acquired as a result of the deal between Vattenfall and DONG		-2,893	-
Exchange rate differences on net debt		2,648	-3,288
Net debt at the end of the year		-49,407	-64,343
Free cash flow		23,178	14,341

1) Funds from operations (FFO)

Amounts in SEK million	2006	2005
Profit for the year	19,858	20,518
Depreciation and amortisation	14,574	14,026
Impairment losses	1,568	1,029
Reversed impairment losses	-25	-243
Undistributed results from participation in associated companies	-666	-121
Unrealised items related to derivatives	4,404	-1,154
Unrealised foreign exchange gains	-1,808	-694
Unrealised foreign exchange losses	199	804
Capital gains	-752	-403
Capital losses	352	467
Impairment losses, shares	4	13
Change in interest receivables	-481	-306
Change in interest liabilities	478	896
Change in tax liabilities	-333	-52
Change in the Swedish Nuclear Waste Fund	-1,918	-1,956
Change in provisions	219	-1,438
Total	35,673	31,386

Interest paid totalled SEK 2,927 million (2,230) and interest received totalled SEK 1,054 million (875). Tax paid totalled SEK 6,000 million (5,853). Dividends received totalled SEK 706 million (639).

2) Investments

Amounts in SEK million	2006	2005
Acquisitions of Group companies	-126	-1,384
Investments in associated companies and other shares and participations	-17	-10,344
Investments in intangible assets: non-current	-586	-602
Investments in property, plant and equipment	-15,801	-12,164
Investments in investment property	-4	-3
Total	-16,534	-24,497

3) Divestments

Amounts in SEK million	2006	2005
Divestments of shares and participations	834	397
Divestments of intangible assets: non-current	2	5
Divestments of property, plant and equipment	884	383
Total	1,720	785

Comments

Cash flow from operating activities increased by 44.2% to SEK 35,207 million (24,423). Funds from operations (FFO) increased by 13.7%, to SEK 35,673 million (31,386), while the change in working capital was SEK -466 million (-6,963). The negative change in working capital is mainly attributable to the booking of SEK 4,100 million (gross) as a receivable in 2005 for the compensation from the Swedish state for the closure of Barsebäck 2. In addition, in 2005 a deposit of approximately SEK 2,400 million was made in a German bank for the squeeze out of minority shareholders in the German subsidiary Vattenfall Europe AG. The compensation for Barsebäck 2 is being paid out in four partial payments from 2006 to 2009. Additional explanations for the strong increase in cash flow from operating activities are higher electricity prices, accounting for SEK 4.2 billion, and an improvement in margin calls on the EEX electricity exchange in Germany, accounting for SEK 3.1 billion.

Free cash flow, i.e., cash flow from operating activities less maintenance investments, increased by 61.6% to SEK 23,178 million (14,341).

Cash flow before financing activities increased sharply to SEK 19,560 million (728), due to considerably lower growth investments in 2006. At the 2006 Annual General Meeting, the definition and target interval were changed for Vattenfall's interest coverage ratio. Starting in 2006, the target is based on cash flow after maintenance investments in relation to interest expenses, instead of the previous target, which was based on operating profit. For the exact definition, see page 111. For the target interval and outcome, see page 3.

Investing activities

Total investments decreased by 29.7% to SEK 17,220 million (24,497).

Maintenance investments increased by 19.3% to SEK 12,029 million (10,082), while growth investments decreased by 64.0% to SEK 5,191 million (14,415). Maintenance investments were broken down as follows in 2006: Nordic countries SEK 6,853 million, Germany SEK 4,574 million, Poland SEK 600 million, and Other SEK 2 million. Of growth investments, SEK 686 million pertains to the net investment attributable to the deal between Vattenfall and DONG. The value of assets and shares purchased by Vattenfall was SEK 13,307 million, while the value of assets transferred to DONG (mainly shares in Elsam A/S and the participation in I/S Avedöre 2) amounted to SEK 12,621 million. Other growth investments are broken down as follows: Nordic countries SEK 2,518 million, Germany SEK 1,731 million, Poland SEK 245 million, and Other SEK 11 million.

Divested assets amounted to SEK 1,720 million (785), including SEK 834 million (397) in shares. Divested shares consisted mainly of non-strategic shareholdings in wholly and partly owned companies outside of Vattenfall's core operations. In addition, approximately 4% of the shares in Ringhals AB were transferred to E.ON Sverige as part of the agreement on the closure of Barsebäck 2. See Note 3 to the consolidated accounts on page 83.

Investment programme 2007–2011

During the five-year period 2007–2011 Vattenfall plans to invest SEK 134 billion, of which SEK 57 billion in the Nordic countries, SEK 71 billion in Germany, and SEK 6 billion in Poland. The largest part of these investments, SEK 102 billion, are planned in generation, while SEK 31 billion will be in the network operations and the remaining SEK 1 billion in other operations.

Financing activities

Total interest-bearing liabilities, including Capital Securities, decreased by 9.0% to SEK 71,575 million (78,663). The rating agencies classify most of the Capital Securities as equity (Moody's 75% and Standard & Poor's 50%). For further information on Capital Securities, see Note 32 to the consolidated accounts, page 93. In 2006 loans were amortised in the amount of SEK 13,495 million, while new borrowing amounted to SEK 8,187 million. New borrowing consisted primarily of a number of long-term private placements under Vattenfall's EMTN programme, at very favourable terms. One of these issues has a term of a full 30 years.

The Group's net debt decreased by 23.2% to SEK 49,407 million (64,343).

As per 31 December 2006, the average fixed-interest period was 3.3 years (3.4), and the average remaining maturity for net debt was 6.6 years (6.6). Excluding Capital Securities, the average fixed-interest period was 2.6 years and the average maturity was 6.2 years. All public funding is conducted via Vattenfall Treasury AB under guarantee from Vattenfall AB.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Amounts in SEK million	Attributable to equity holders of the Parent Company					Attributable to minority holders	Total equity
	Share capital	Translation reserve	Reserve for cash flow hedges	Retained earnings incl. profit for the year	Total		
Balance carried forward 2004	6,585	821	-	65,588	72,994	10,114	83,108
Adjustment of retained earnings ¹	-	-	-	2,443	2,443	-	2,443
Transitional effect of adoption of new accounting principles (IAS 39)	-	2	-264	-154	-416	-24	-440
Cash flow hedges:							
Changes in fair value	-	-	-14,174	-	-14,174	-250	-14,424
Dissolved against income statement	-	-	-936	-	-936	-	-936
Transferred to cost of hedged item	-	-	-277	-	-277	-	-277
Tax attributable to items reported directly against equity	-	-	5,263	-	5,263	110	5,373
Hedging of net investments in foreign operations	-	-1,639	-	-	-1,639	-	-1,639
Translation differences	-	3,765	-	-	3,765	291	4,056
Income, net, recognised directly in equity	-	2,126	-10,124	-	-7,998	151	-7,847
Profit for the year	-	-	-	19,235	19,235	1,283	20,518
Total recognised income and expense for the year	-	2,126	-10,124	19,235	11,237	1,434	12,671
Dividends paid to equity holders	-	-	-	-5,600	-5,600	-178	-5,778
Group contributions to minority, net after tax	-	-	-	-	-	-119	-119
Changes in ownership	-	-	-	-	-	-976	-976
Transfers within equity	-	-	-	-93	-93	93	-
Balance carried forward 2005	6,585	2,949	-10,388	81,419	80,565	10,344	90,909
Cash flow hedges:							
Changes in fair value	-	-	-1,606	-	-1,606	-50	-1,656
Dissolved against income statement	-	-	8,717	-	8,717	109	8,826
Transferred to cost of hedged item	-	-	-56	-	-56	-4	-60
Tax attributable to items reported directly against equity	-	-	-2,478	-	-2,478	-49	-2,527
Hedging of net investments in foreign operations	-	1,856	-	-	1,856	-	1,856
Translation differences	-	-3,338	-	-	-3,338	-265	-3,603
Income, net, recognised directly in equity	-	-1,482	4,577	-	3,095	-259	2,836
Profit for the year	-	-	-	18,729	18,729	1,129	19,858
Total recognised income and expense for the year	-	-1,482	4,577	18,729	21,824	870	22,694
Dividends paid to equity holders	-	-	-	-5,800	-5,800	-92	-5,892
Group contributions from minority, net after tax	-	-	-	-	-	114	114
Changes in ownership	-	-	-	-	-	-151	-151
Balance carried forward 2006	6,585	1,467	-5,811	94,348	96,589	11,085	107,674

NOTES TO THE CONSOLIDATED ACCOUNTS

(Amounts in SEK million unless stated otherwise.)

1) Reappraisal decision by the Swedish Tax Agency

Vattenfall AB has previously been the subject of an extensive tax audit which dealt with Vattenfall's transition from a public utility (affärsverk) to a limited liability company in 1992. The County Administrative Court and Administrative Court of Appeal, after appeals on verdicts, have established that the Swedish Parliament's decision at the time of the conversion of Vattenfall into a limited liability company did not take applicable tax legislation into account to a sufficient extent. One consequence of this, according to the reappraisal decision, has been that Vattenfall AB's opening balance sheet as a limited liability company has been corrected, meaning that the Group's deferred tax liability was reduced by SEK 2,443 million, with a corresponding increase in Retained earnings in the Group's equity.

Share capital:

As of 31 December 2006 the registered share capital comprised 131,700,000 shares with a par value of SEK 50 each.

Translation reserve:

The translation reserve includes all exchange rate differences arising in the translation of financial reports from non-Swedish operations that prepare their reports in a currency other than that in which the Group reports. Further, the translation reserve includes exchange rate differences arising in the reassessment of debts raised as hedges for net investments in non-Swedish operations.

Reserve for cash flow hedges:

The reserve for cash flow hedges includes mostly unrealised values of electricity derivatives used to hedge future sales.

Retained earnings including profit for the year:

Retained earnings including profit for the year includes earned profits in the Parent Company and its subsidiaries, associated companies and joint ventures.

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Note 1 Company information

The consolidated accounts and year-end report for Vattenfall AB for 2006 were approved for publication in accordance with a decision by the Board of Directors on 7 February 2007. The Annual Report has been approved in accordance with a decision by the Board of Directors on 7 March 2007. The Parent Company, Vattenfall AB, is a limited liability company with its registered office in Stockholm and with the address SE-162 87 Stockholm, Sweden. The consolidated balance sheet and income statement will be submitted at the Annual General Meeting (AGM).

The main activities of the Group are described in Note 6 to the consolidated accounts, Segmental information.

Note 2 Accounting principles

Conformity with standards and regulations

The consolidated accounts have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) as well as the interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) as approved by the European Commission for application within the EU. These also include the International Accounting Standards (IAS) issued by IASB's predecessor, the International Accounting Standards Committee (IASC), and the interpretations issued by IFRIC's predecessor, the Standing Interpretations Committee (SIC).

Further, the Swedish Financial Accounting Standards Council's recommendation RR 30:05 – Supplementary Accounting Principles for Groups of Companies, has been applied. RR 30:05 specifies the necessary additions to the IFRS disclosure requirements in accordance with the Swedish Annual Accounts Act.

Basis of measurement

Assets and liabilities are reported at cost, with the exception of financial assets and liabilities, which are stated at fair value. Financial assets and liabilities stated at fair value consist of derivative instruments and financial assets that are stated at fair value in the income statement.

Functional and presentation currencies

The functional currency is the currency of the primary economic environment in which each entity operates

The Parent Company's functional currency is the Swedish krona, which is also the reporting currency of both the Parent Company and the Group. This means that the financial statements are presented in Swedish kronor (SEK). Unless otherwise stated, all figures are rounded off to the nearest million Swedish kronor (SEK million).

Estimations and assessments

Preparation of the financial statements in accordance with IFRS requires the Company's executive management and board of directors to make assessments and estimations as well as to make assumptions that affect the application of the accounting principles and the reported amounts of assets, liabilities, income and expenses. The estimations and assumptions are based on historic experience and a number of other factors that seem reasonable under current conditions. The results of these estimations and assumptions are then used to establish the reported values of assets and liabilities which are not clearly documented from other sources. The final outcome can deviate from the results of these estimations and assessments.

The estimations and assumptions are revised on a regular basis. The effects of changes in estimations are reported in the period in which the changes were made if the changes affected this period only, or in the period the changes were made and future periods if the changes affect both the current period and future periods.

When applying IFRS, assessments made by the Company's executive management and board of directors which have a material effect on the financial statements and estimations made that may result in substantial adjustments to the following year's financial statements are described in greater detail in Note 49 to the consolidated accounts.

Changes in accounting principles and definitions

The accounting principles of the Group detailed below have been applied consistently to all periods presented in the consolidated financial

statements. The Group's accounting principles have been applied consistently to the reporting and consolidation of subsidiaries and associated companies.

Starting in 2006, the Group's share of an associated company's reported profit after tax – where appropriate adjusted for any amortisation, impairment loss or dissolution of acquired surplus or deficit values – is reported as "Participations in the results of associated companies". Previously, the Group's share of associated companies' recorded tax expenses was included in the consolidated tax expense. All periods prior to 2006 have been restated to comply with this new principle.

In the 2006 year-end book-closing, the accounting principle for emission allowances has been changed in such way that purchased emission allowances are reported at cost as intangible assets under current assets, while emission allowances that have been received free of charge from the respective countries' authorities are stated at a value of SEK 0. As carbon dioxide is emitted, an obligation arises to deliver emission allowances to the authorities in the respective countries. An expense and a liability are booked only in cases where the emission allowances that were received free of charge do not cover this obligation. This liability is valued in the amount at which it is expected to be settled. In previous periods, emission allowances received free of charge were stated at the time of their acquisition at fair value among inventories and as a government grant on the balance sheet, while purchased emission allowances were reported at cost among inventories. The government grant was realised as income over the year, and as carbon dioxide was emitted, an expense and a liability for the obligation to provide emission allowances was recognised. The liability was valued on the basis of inventory assets. Effects in previous periods of the above-mentioned change in accounting principle for emission allowances entails that the balance sheet total for the Vattenfall Group decreased by SEK 5,353 million as per 31 December 2005, by SEK 27,782 million as per 31 March 2006, by SEK 20,437 million as per 30 June 2006, and by SEK 20,576 million as per 30 September 2006. Gross profit and operating profit are not affected by this new accounting principle.

Starting with 2006 and onwards, an average of equity over the period is applied when calculating the key ratio Return on equity. Previously this same key ratio was based on equity brought forward for the period. Previous periods have been restated to comply with this new principle.

New IFRSs and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations approved by the EU are effective as of the 2007 fiscal year, and have not been applied in preparing these consolidated financial statements.

IFRS 7 – Financial Instruments: Disclosures, and the Amendment to IAS 1 – Presentation of Financial Statements: Capital Disclosures, require increased disclosures about the significance of financial instruments for an entity's financial position and performance, and qualitative and quantitative disclosures on the nature and extent of risks. IFRS 7 and the related amendments to IAS 1, which become mandatory for the Group's 2007 financial statements, will require increased additional disclosures with respect to the Group's financial instruments.

IFRIC 7 – Applying the Restatement Approach under IAS 29 – Financial Reporting in Hyperinflationary Economies, addresses the application of IAS 29 when an economy first becomes hyperinflationary and in particular the accounting for deferred tax. IFRIC 7, which becomes mandatory for the Group's 2007 financial statements, is not expected to have any impact on the consolidated financial statements.

IFRIC 8 – Scope of IFRS 2 Share-based Payment, addresses the accounting for share-based payment transactions in which some or all of goods or services received cannot be specifically identified. IFRIC 8 will become mandatory for the Group's 2007 financial statements, with retrospective application required. At present, Vattenfall is not affected by IFRIC 8.

IFRIC 9 – Reassessment of Embedded Derivatives, requires that a reassessment of whether embedded derivatives should be separated from the underlying host contract should be made only when there are changes to the contract. IFRIC 9, which becomes mandatory for the Group's 2007 financial statements, is not expected to have any material impact on the consolidated financial statements.

IFRIC 10 – Interim Financial Reporting and Impairment, prohibits the reversal of an impairment loss recognised in a previous interim period in respect of goodwill, an investment in an equity instrument,

or a financial asset carried at cost. IFRIC 10 will become mandatory for the Group's 2007 financial statements and will apply to goodwill, investments in equity instruments, and financial assets carried at cost prospectively from the date that the Group first applied the measurement criteria of IAS 36 and IAS 39, respectively (i.e., 1 January 2004 for goodwill and 1 January 2005 for financial instruments). Since no such reversals of impairment losses have taken place, IFRIC 10 will have no impact on the Group's financial statements.

Segmental information

In the accounts, a segment is an identifiable part of the Group which either provides products and services (business segments), or products and services in a certain economic environment (geographic area) that are exposed to risks and opportunities that distinguish it from other segments. Segmental information (see Note 6 to the consolidated accounts) is provided for the Group.

Classification of current and non-current assets and liabilities

An asset is classified as a current asset when it is held primarily for commercial purposes or is expected to be realised within twelve months after the balance sheet date or consists of cash and cash equivalents, provided it is not subject to restrictions on its exchange or use for regulating a liability at least twelve months after the balance sheet date.

All other assets are classified as non-current assets.

A liability is classified as a current liability when it is held primarily for commercial purposes or is expected to be settled within twelve months after the balance sheet date or one for which the Group does not have an unconditional right to defer settlement of for a minimum of twelve months after the balance sheet date.

All other liabilities are classified as non-current liabilities.

Principles of consolidation

Subsidiaries

Subsidiaries are companies in which the Parent Company, Vattenfall AB, directly or indirectly holds more than 50% of the voting power, or in any other way has a controlling influence. Controlling influence entails a right to design a company's financial and operational strategies with the purpose of gaining financial advantages.

Business combinations are accounted for using the purchase method. This method means that the acquisition of a subsidiary is considered a transaction through which the Group indirectly acquires the subsidiary's assets and takes over its liabilities and contingent liabilities. Through acquisition analysis of the business acquisition, the cost of the participating interests or business activities is established as well as the fair value of acquired identifiable assets and assumed liabilities and contingent liabilities. Deferred tax is taken into account in the surplus values. The difference between the cost of the subsidiaries' shares and the fair value of acquired assets, assumed liabilities and contingent liabilities constitutes consolidated goodwill.

In a situation where a subsidiary is acquired in several stages, an acquisition analysis is also prepared for each acquisition transaction that takes place before a controlling influence is obtained. The reported value of goodwill is the sum total of the goodwill values calculated for each sub-acquisition.

The subsidiary's financial statements, which are prepared in accordance with the Group's accounting principles, are included in the consolidated accounts from the point of acquisition to the date when the controlling influence ceases.

A discontinued operation is reported separately from continuing operations if the discontinued operation amounts to a significant value.

Associated companies

Associated companies are companies for which the Group has a significant – but not controlling – influence over their operational and financial management, usually through shareholdings of between 20% and 50% of the votes. From the point at which the significant influence is acquired, participations in associated companies are reported in the consolidated accounts in accordance with the equity method. The equity method means that the value of the shareholding in associated companies reported in the consolidated accounts corresponds to the Group's

share of the associated companies' equity plus consolidated goodwill and any unamortised value of consolidated surplus and deficit values. Dividends received from an associated company reduce the book value of the investment.

In conjunction with the acquisition of an associated company, an acquisition analysis similar to that of a business combination is made. Identifiable surplus values are handled in a similar manner to surplus values in business combinations. If the associated company's reported losses exceed the reported value of the participations in the Group, the value of the participating interest will be reduced to zero. A deduction for losses will also be made for receivables without security which, in economic reality, form part of the owner company's net investment in the associated company. Excess losses are not reported provided the Group has not issued guarantees to cover losses arising in the associated company. The equity method is applied up to the point when the significant influence ceases.

Joint ventures

In the accounts, joint ventures are activities in which the Group has a joint controlling influence over the operational and financial management through collaborative agreement with one or more parties. In the consolidated accounts, holdings in joint ventures are consolidated in accordance with the equity method.

Transactions that are eliminated on consolidation

Intra-group receivables and liabilities, income and expenses, as well as gains or losses arising from intra-group transactions between Group companies, are eliminated in their entirety when preparing the consolidated accounts.

Gains arising from transactions with associated companies and joint ventures are eliminated to an extent that corresponds to the Group's holding in the company. Losses are eliminated in the same manner as gains, but only if there is no indication of any need for impairment.

Foreign currencies

Transactions in foreign currencies

Transactions in foreign currencies are translated to the functional currency at the exchange rate on the day of the transaction. On the balance sheet date, monetary assets and liabilities in foreign currencies are translated to the functional currency at the exchange rate applicable on that day. Exchange rate differences arising from translation of currencies are reported in the income statement.

Financial reporting of foreign activities

Assets and liabilities of foreign activities, including goodwill and other consolidated surplus and deficit values, are translated to SEK at the exchange rate in effect on the balance sheet date. Income and expenses of foreign activities are translated to SEK using an average exchange rate. Translation differences arising from foreign currency translation of foreign activities are reported directly against equity under the heading Translation reserve.

For the Vattenfall Group, the more important exchange rates used in the accounts are provided in Note 4 to the consolidated accounts.

Revenue recognition

Sales of goods and execution of service assignments

Net sales include sales proceeds from ordinary activities. Operating revenues are reported at the time of delivery, excluding value-added tax and excise taxes.

In the case of service and consulting assignments, the percentage of completion method is applied, i.e., revenues and expenses are reported in proportion to the degree of completion. The degree of completion is established according to the relation between accrued expenses on the balance sheet date and estimated total expenses. In cases where losses are expected, a provision is established immediately.

Rental revenues

Rental revenues are reported on a straight-line basis over the period of the agreement in the income statement.

Government grants

Grants are reported at fair value when it can reasonably be assumed

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Note 2 continued

that the grant will be received and that the Group will meet the conditions of the grant.

A grant tied to a non-current asset reduces the book value of the asset.

A grant intended to cover expenses is reported in the income statement as income over the same periods as the expenses.

Operating expenses

Operating leases

Payments concerning operating leases are reported in the income statement on a straight-line basis over the leasing period. For a definition of operating leases, see below under the heading Property, plant and equipment/Leasing.

Financial income and expenses

Financial income

Financial income consists of interest income on bank balances, receivables and interest-bearing securities, returns from the Swedish Nuclear Waste Fund, dividend income, exchange rate differences, and positive changes in values of financial investments and derivative instruments used in financial activities.

Interest income includes accrued amounts of transaction costs and any rebates, premiums and other differences between the original value of the receivable and the amount received when due. Interest income is reported as it is earned. The calculation is made on the basis of the return on underlying assets in accordance with the effective rate method.

Dividend income is reported when the right to receive income is established.

Financial expenses

Financial expenses consist of interest expenses on loans, discounting effects attributable to provisions excluding provisions for pensions, exchange rate differences, and negative changes in values of financial investments and derivative instruments used in the financial activities. Discounting effects are defined here as the periodic change of the present value which reflects that the due date is approaching.

Issue expenses and similar direct transaction costs for raising loans are distributed over the term of the loan in accordance with the effective rate method.

Borrowing costs directly attributable to investment projects in non-current assets are not reported as financial costs but should be included in the cost of the non-current asset during the construction period.

Leasing fees pertaining to finance leases are distributed between interest expense and amortisation of the outstanding debt. Interest expenses are distributed over the leasing period so that each accounting period is burdened in the amount corresponding to a fixed interest rate for the reported debt in each period. Variable fees are carried as an expense in the period in which they arise.

Financial assets and liabilities

General principles

Foreign exchange gains and losses concerning operating receivables and liabilities in foreign currencies are reported under operating profit, while foreign exchange gains and losses concerning other receivables and liabilities in foreign currencies are reported under net financial items.

For financial instruments traded on organised financial markets, the fair value is set at the rate applicable when the market closes on the balance sheet date. The same rule applies for fixing the fair value of bilaterally traded financial instruments (OTC-trading). For unlisted financial instruments, fair value is set by discounting estimated future cash flow.

Financial assets

Financial assets are classified into various categories depending on the purpose of the acquisition of the financial asset. The classification is determined at the original point of acquisition.

Settlement day accounting is applied to spot purchases and spot sales of financial assets.

Financial assets carried at fair value in the income statement

In this category, assets are classified as holdings for commercial purposes, which means that the aim is for them to be divested in the near term. Derivative instruments are always classified in this category, apart from instances when they are classified as a hedge, when hedging

is applied (see below). Assets are restated on an ongoing basis at fair value, with changes in value reported in the income statement.

This category includes cash and cash equivalents, immediately available credit balances with banks and similar institutions as well as cash equivalents with an original term of less than three months. The category also includes short-term investments with original terms exceeding three months.

Loans receivable and trade receivables

Loans receivable and trade receivables are financial assets with fixed payments or payments whose amounts can be determined. Receivables arise when the company provides money, goods and services directly to the debtor without the intention of doing business in the right of action. Acquired receivables are also covered. A valuation is made at amortised cost. Amortised cost is defined as the value at which a financial asset or liability is stated when it is initially recorded in the balance sheet, less any repayments, and with additions or deductions for the distribution over time of any differences between the amount initially recognised and the repayment amount.

Trade receivables are reported at the amount expected to be paid, less bad debts, which are assessed individually. Impairment losses on trade receivables are reported under operating expenses. Trade receivables have a short anticipated term and are therefore valued at a nominal amount without discounting.

Other shares and participations

These are defined as shares and participations for which there are no balance sheet date quotations and for which a fair value cannot be established. A valuation is made at cost, in certain cases after taking accumulated impairment losses into account.

Financial liabilities

In accordance with IAS 39, the Company's financial liabilities have been classified into various categories depending on the purpose of the acquisition of the financial asset. The classification is determined at the date of original acquisition.

Financial liabilities stated at fair value in the income statement

Derivative instruments are classified in this category, apart from instances when they are classified as a hedge, when hedging is applied (see below). Valuation is conducted on a continual basis at fair value with changes in value reported in the income statement.

Other financial liabilities

In this category, interest-bearing and noninterest-bearing financial liabilities that are not held for commercial purposes are reported. A valuation is made at amortised cost.

Non-current liabilities have a remaining term of more than one year, while liabilities with shorter terms are reported as current. Trade liabilities have a short anticipated term and are therefore valued at a nominal amount without discounting.

Liabilities included in a hedge relationship are reported in accordance with the principles described below.

Derivative instruments

The Company uses various types of derivative instruments (forwards, futures and swaps) to hedge various financial risks, primarily interest rate risks, currency risks and electricity price risks.

Derivative instruments with a positive market value are reported in the balance sheet under the item Trade and other receivables, while derivative instruments with a negative market value are reported under the item Trade and other liabilities.

Derivative instruments are reported at fair value on the balance sheet date. Changes in value are reported in various ways, depending on whether the derivative instrument is classified as a hedge or not. In a situation where hedging is not applied, the change in value is reported in the income statement in the period in which it arises. Based on the purpose of the contract, changes in value are reported either under operating profit or as financial income/expense.

Vattenfall has taken out embedded derivative contracts with a number of major customers, i.e., contracts that contain conditions that entail that the value of the contracts will be affected in the same way as

if a separate derivative had been contracted. These contracts stretch over long periods of time – considerably longer than available market quotations: the longest contract has a term extending until 2019.

In customer contracts, the price can be linked to the price trend for other commodities than electricity, and indirectly also to currency movements, since the current commodity prices are quoted in foreign currency. According to IAS 39, such contracts are considered to contain embedded derivatives. In view of the structure of these contracts in general and their duration in particular, plus the fact that reliable market quotations are only available for a period of 27 months ahead in time, Vattenfall has made the judgement that a reliable value cannot be established on the portion of these embedded derivatives that pertain to the period extending beyond April 2009.

Hedge accounting

Hedge accounting is adopted for derivative instruments that are included in a documented hedge relationship. For hedge accounting to be applied, an unambiguous connection between the hedge and the hedged item is required. Further, it is necessary for the hedge to protect the risk effectively as intended, that the effectiveness of the measure can be demonstrated at all times to be sufficiently high through effectiveness testing, and that hedging documentation has been prepared. How changes in value are reported in these cases depends on the type of hedge entered into.

Cash flow hedges

For derivative instruments that constitute hedges in a cash flow hedge, the effective part of the change in value is reported under equity while the ineffective part is reported directly in the income statement. The part of the change in value that is reported under equity is then transferred to the income statement for the period when the hedged item affects the income statement. In cases where the hedged item refers to a future transaction, which is later capitalised as a non-financial asset or liability in the balance sheet (for example, when hedging future purchases of non-current assets in a foreign currency), the part of the change in value reported under equity is transferred to and included in the cost of the asset or liability.

If the conditions for hedging are no longer met, the accumulated changes in value that were reported under equity are transferred to the income statement for the later period when the hedged item affects the income statement. Changes in value from the day on which the conditions for hedging ceased to be met are reported directly in the income statement. If the hedged transaction is no longer expected to occur, the hedge's accumulated changes in value are immediately transferred from equity to the income statement.

Cash flow hedges are used primarily in the following cases: i) when forward electricity contracts are used to hedge electricity price risk in future purchases and sales, ii) when forward exchange rate contracts are used to hedge currency risk in future purchases and sales in foreign currencies, and iii) when interest rate swaps are used to replace borrowing at a floating interest rate with a fixed interest rate.

Hedges of fair value

For hedges of fair value, hedge accounting is applied in cases where the hedge pertains to an item that is normally stated at amortised cost. In such cases, hedge accounting entails that the hedged risk in the hedged item is stated at fair value along with the change in value in the income statement.

A hedge of fair value is primarily used in cases where interest rate swaps are used for hedging interest rate risk on borrowings at a fixed interest rate.

Hedges of net investments

For derivative instruments and loans in foreign currencies that constitute hedges in hedging of net investments, the effective part of the change in value is reported under equity while the ineffective part is reported directly in the income statement. The changes in value reported under equity are transferred to the income statement at a later stage when the foreign activity is divested.

Hedging of net investments is primarily used when forward exchange rate contracts and loans in foreign currencies are used to hedge the currency risk of the company's investments in foreign subsidiaries.

Intangible assets: non-current

Capitalised development costs

Development costs resulting from the application of research findings or other knowledge to produce new or improved products or processes are reported as an asset in the balance sheet from the time when the product or process is expected to become technically and commercially usable and the company has sufficient resources to complete the development work and subsequently use or sell the intangible assets. The reported value includes costs for materials, direct costs for salaries and indirect costs, all of which can be attributed to assets. Other development costs are reported in the income statement as expenses when they arise. In the balance sheet, development costs are reported at cost less accumulated amortisation and impairment losses.

Research costs with the purpose of obtaining new scientific or technical knowledge are reported as expenses when they arise.

Goodwill

Goodwill represents the difference between the cost of a business combination and the fair value at the point of acquisition of acquired assets, assumed liabilities and contingent liabilities. The difference is the cost of goodwill.

Goodwill is valued at cost less any accumulated impairment losses. Goodwill is not subject to amortisation but is tested annually for impairment. Goodwill that arises on acquisition of associated companies is included in the reported value of Participations in associated companies.

Other non-current intangible assets

Other non-current intangible assets such as concessions, patents, licences, trademarks and similar rights as well as renting rights, mining rights and similar rights acquired by the Group are reported at cost less accumulated amortisation and impairment losses.

Subsequent costs

Subsequent costs for capitalised non-current intangible assets are reported as an asset in the balance sheet only when they increase the future financial advantages for the specific assets to which they refer. All other costs are carried as an expense when they arise.

Principles for amortisation

Amortisation is reported on a straight-line basis in the income statement over the estimated useful life of the asset, provided the useful life is not indefinite. Estimated useful lives are unchanged compared with a year ago and are further described in Note 18 to the consolidated accounts, Intangible assets: non-current.

Assessments of the residual value and useful life of an asset are conducted annually.

Property, plant and equipment

Owned assets

Property, plant and equipment are reported as assets in the balance sheet if it is likely that there will be future financial benefit for the company and the cost of the asset can be calculated in a reliable manner.

Assets reported as property, plant and equipment are land and buildings, plant and machinery as well as equipment, tools and fixtures and fittings. These assets are valued at cost less accumulated depreciation and impairment losses.

Cost includes the purchase price and costs directly attributable to putting the asset in place and in a suitable condition for use in accordance with the purpose of the acquisition. Examples of directly attributable expenses included in cost are delivery and handling, installation, land registration and consulting services. Borrowing costs directly attributable to investment projects in property, plant and equipment are included in cost of the asset during the construction period.

Within nuclear power operations in Germany and Sweden, cost at the time of acquisition includes a calculated present value for estimated costs for decommissioning and removing the plant and restoring the site where the plant is located. Further, this obligation also encompasses the safeguarding and final storage of spent radioactive materials used by the plants.

Similarly, for mining operations in Germany, cost at the time of the acquisition includes a calculated present value for estimated costs for undertaking to restore the land.

Note 2 continued

The equivalent estimated cost calculated on the basis of the present value is reported initially as a provision.

Leasing

Leases are classified as either finance or operating leases. A finance lease exists when the economic risks and benefits associated with ownership are, in essence, transferred to the lessee; if this is not the case, it is classified as an operating lease.

Leased assets

Assets leased under finance leases are reported as assets in the consolidated balance sheet. A commitment to pay future leasing charges is reported as a non-current or current liability. The leased assets are depreciated on a straight-line basis over the shorter leasing period or useful life while the leasing payments are reported as interest and amortisation of the debts.

Operating leases normally entail the leasing charge being carried as an expense on a straight-line basis over the leasing period.

Hired out assets

Assets that are hired out under finance leases are not reported as property, plant and equipment, since the risks associated with ownership are transferred to the lessee. Instead, a financial receivable is entered for the future minimum leasing charges.

Assets hired out under operating leases are reported as property, plant and equipment that are subject to depreciation.

Subsequent costs

Subsequent costs are only added to cost if it is likely that there will be future financial benefits associated with the asset for the company and the cost can be calculated in a reliable manner. All other future costs are reported as expenses in the period when they arise.

What is decisive for the assessment when a subsequent cost is added to cost is whether the cost concerns the replacement of identified components, or parts of them, whereby such costs are capitalised. Also in cases where new components are created, the cost is added to the cost of the asset. Any undepreciated reported values of replacement components, or parts of components, are retired and carried as an expense in connection with the replacement. Repairs are carried as an expense continuously.

Depreciation principles

Depreciation is reported on a straight-line basis in the income statement over the estimated useful life of the asset. The Group applies component depreciation, which means that the components' estimated useful life provides the basis for the depreciation. Estimated useful lives are unchanged compared with a year ago for all property, plant and equipment except for the Group's Swedish nuclear power plants where the useful life, starting in 2006, has been extended from 25 years to 40 years. Estimated useful lives are further described in Note 19 to the consolidated accounts, Property, plant and equipment.

Assessments of the residual value and useful life of an asset are conducted annually.

Land and water rights are not subject to depreciation.

Investment property

Investment property is property held in order to earn rental income or an increase in value or a combination of these two objectives.

Investment property is reported in the balance sheet at cost less accumulated depreciation and impairment losses. Depreciation is done on a straight-line basis, and an assessment of residual value and useful life of an asset is conducted annually.

Inventories**Nuclear fuel, fossil fuels, and materials and spare parts**

These inventories are valued at the lower of their cost and net realisable value. Net realisable value is the estimated sales price in operating activities, less estimated costs for completion and to bring about a sale.

The consumption of nuclear fuel is calculated as a depletion of the energy content of the fuel rods, and is based on the cost of each batch of fuel loaded into the core.

The cost of inventories is estimated through the application of the first-in first-out method (FIFO) and includes costs that arose on acquisition of the inventory items.

The value of the energy stored in the form of water in reservoirs is not reported as an asset.

Intangible assets: emission allowances

As of 2005, a trading system applies in the EU with the purpose of reducing emissions of the greenhouse gas carbon dioxide. Within the framework of this system, concerned plants have received, without payment or for prices below fair value, so-called emission allowances from the authorities in each country.

Purchased emission allowances are reported at cost as intangible assets under current assets, while emission allowances that have been received free of charge from the respective countries' authorities are stated at a value of SEK 0. As carbon dioxide is emitted, an obligation arises to deliver emission allowances to the authorities in the respective countries. An expense and a liability are booked only in cases where the emission allowances that were received free of charge do not cover this obligation. This liability is valued in the amount at which it is expected to be settled.

Impairment losses

Assessments are made throughout the year for any indication that an asset may have fallen in value. If there is an indication of this kind, the asset's recoverable amount is estimated. For goodwill and other intangible assets with an indefinite useful life and for intangible assets which are still not ready for use, the recoverable amount is calculated annually.

If the essentially independent cash flow for an individual asset cannot be established for the assessment of any need for impairment, the assets must be grouped at the lowest level where it is possible to identify the essentially independent cash flow (a so-called cash-generating unit). An impairment loss is reported when an asset or cash-generating unit's reported value exceeds the recoverable amount. Any impairment loss is recognised in the income statement.

Impairment of assets attributable to a cash-generating unit is allocated primarily to goodwill. Thereafter, a proportional impairment loss is conducted of other assets that are part of the unit.

Calculation of the recoverable amount

The recoverable amount is the higher of fair value less selling expenses and value in use. When calculating value in use, the future cash flow is discounted by a discounting factor which takes into consideration risk-free interest and the risk associated with the specific asset. For an asset that does not generate cash flow independently of other assets, the recoverable amount is calculated for the cash-generating unit to which the asset belongs.

Reversal of impairment losses

Impairment losses of financial assets that are reported at amortised cost are reversed if a later increase of the recoverable amount can be attributed to an event that occurred after the impairment loss was made.

Impairment losses on goodwill are never reversed.

Impairment losses on other assets are reversed if a change has occurred to the assumptions that formed the basis for the calculation of the recoverable amount.

An impairment loss is only reversed if the asset's reported value after reversal does not exceed the reported value that the asset would have had if the impairment loss had not been made.

Employee benefits**Defined contribution pension plans**

Defined contribution pension plans are post-employment benefit plans according to which fixed fees are paid to a separate legal entity. There is no legal or informal obligation to pay additional fees if the legal entity does not have sufficient assets to pay all benefits to the employees. Fees for defined contribution pension plans are reported as an expense in the income statement in the period they apply to.

Defined benefit pension plans

Defined benefit pension plans consist of other post-employment benefit

plans than defined contribution pension plans. The Group's defined benefit pension obligations are calculated separately for each plan in accordance with the Projected Unit Credit Method by calculating employees' current and past service cost. Estimated future salary adjustments are taken into consideration. The net obligation comprises the discounted present value of the total earned and estimated future salaries less the fair value of any plan assets. The discount rate consists of the interest rate on the balance sheet date of a first-class corporate bond with a lifetime that corresponds to the Group's pension obligations. When there is no deep market in corporate bonds of this kind, the market rate yield on government bonds with an equivalent lifetime is used instead.

When benefits in a plan are improved, the proportion of the increased benefit attributable to the employees' past service cost is reported as an expense in the income statement on a straight-line basis distributed over the average period until the benefits are wholly earned. If the benefits are fully earned, an expense is reported directly in the income statement.

For actuarial gains and losses, the so-called corridor rule is applied. Actuarial gains and losses arise from the effects of changes in actuarial assumptions. The corridor rule entails that part of the accumulated actuarial gains and losses that exceed 10% of the greater of the obligations' present value and the fair value of plan assets is reported in the income statement starting in the year after they arise over the expected average remaining service period for the employees covered by the plan. In other respects, actuarial gains and losses are not taken into account.

When the calculation leads to an asset for the Group, the reported value of the asset is limited to the net of unreported actuarial losses and unreported past service costs and the present value of future repayments from the plan or reduced future payments to the plan.

Other provisions than provisions for pensions

A provision is reported in the balance sheet when the Group has a legal or informal obligation as a result of an event and it is probable that an outflow of financial resources will be required to regulate the obligation and a reliable estimate of the amount can be made. Where the effect of the time when payment is made is important, provisions are estimated by discounting the anticipated future cash flow at an interest rate before tax which reflects current market estimates of the money's time value and the risks associated with the liability. The discount rate does not reflect such risks that are taken into consideration in the estimated future cash flow.

Income tax expense

Income tax comprises current tax and deferred tax. Income tax is reported in the income statement except when the underlying transaction is reported directly against equity, whereby the associated tax effect is reported under equity.

Current tax is tax to be paid or received for the current year, with the application of the tax rates that are established or, established in practice as of the balance sheet date. Adjustments of tax paid attributable to previous periods are also included in this.

Deferred tax is calculated in accordance with the balance sheet method on the basis of temporary differences between the reported and taxable values of assets and liabilities. The following temporary differences are not taken into account: for a temporary difference that arises with the initial reporting of goodwill, initial reporting of assets and liabilities which are not business combinations and at the time of the transaction do not affect either reported or taxable profit. Further, such temporary differences attributable to shares or participations in subsidiaries or associated companies which are not expected to be reversed in the foreseeable future are not taken into account either. The valuation of deferred tax is based on how the reported value of assets or liabilities is expected to be realised or settled. Deferred tax is calculated in accordance with the tax rates and tax rules that have been established or have been established in practice by the balance sheet date.

Deferred tax assets concerning non-deductible temporary differences and tax-loss carryforwards are only reported to the extent that it will be possible for these to be used. The value of deferred tax assets is reduced when it is no longer considered likely that they can be used.

Contingent liabilities

A contingent liability is reported when there is a possible obligation that arises from events and whose existence is only confirmed by one or more doubtful future events or when there is an obligation that is not reported as a liability or provision because it is not likely that an outflow of resources will be required.

Note 3 Acquired and divested operations

As per 1 July 2006, assets, liabilities and staff, etc., were transferred between Vattenfall and the Danish company DONG A/S. Assets, primarily in the form of combined heat and power plants and wind power plants, were transferred to Vattenfall from Elsam A/S and Energi E2 A/S (subsidiaries of DONG A/S) in exchange for Vattenfall's shares in Elsam A/S and Vattenfall's participation in I/S Avedøre 2.

The main parts of the new plants were acquired directly by Vattenfall A/S in Denmark (the company is 100%-owned by Vattenfall AB), whereby plants, shareholdings, working capital and financing were taken over. At the same time, shares were acquired in Kentish Flats Ltd (100%), Vattenfall Vindkraft Sverige AB (100%) and Vattenfall Wolin-North Sp.z.o.o (100%) (present names).

The acquisition of the subsidiaries has been reported using the acquisition method of accounting, as defined in IFRS 3 - Business Combinations. As prescribed under this method, Vattenfall has allocated the total acquisition price, both for acquired assets and companies, to assets acquired and liabilities assumed based on their fair values. The fair values have been determined by applying generally accepted principles and procedures.

The value of transferred net assets amounted to SEK 13,307 million. After divestments (mainly Vattenfall's shareholding in Elsam A/S and its participation in I/S Avedøre 2) valued at SEK 12,621 million, the net investment amounts to SEK 686 million. The valuation of assets acquired and liabilities is preliminary pending a final review of the acquisition.

Operating profit of the acquired operations amounted to SEK 430 million for the second half of 2006. Vattenfall does not have access to information on operating profit for the full year 2006. The same applies for reported values of assets and liabilities taken over from the selling companies engaged.

The table below shows assets and liabilities taken over as stated in the consolidated accounts at the acquisition date (SEK million).

Assets and liabilities acquired	
Intangible assets: non-current	2,046
Property, plant and equipment	13,917
Other non-current assets	586
Inventories	1,174
Cash and cash equivalents	39
Other current assets	1,249
Total assets	19,011
Liabilities	
Provisions	1,203
Interest-bearing non-current liabilities	1,434
Other non-current liabilities	1,170
Interest-bearing current liabilities	1,460
Other current liabilities	437
Total liabilities	5,704
Net assets acquired	13,307
Cash flow effects	
Net assets acquired	13,307
Value of assets divested	12,621
Net investment	686
Cash and cash equivalents acquired	39
Net cash outflow at time for acquisition	647

Continued on page 84

Note 3 continued

Other companies than the above-mentioned, that have been subject to divestment (major divestments).

	Month	Company	Change, %	New ownership %	Transfer amount, SEK million
Nordic countries	March	Ringhals AB, Sweden	- 4	70	91
	December	Bodens Energi AB, Sweden	-40	-	110
Germany	March	Enoplan GmbH	-62	-	19
	April	Energie Südwest AG	-51	-	342
	June	Compania Electricia de Sochagota S.A.E.S.P, Colombia	-25	-	180
	August	AVG Abfall und Verwertungs GmbH	-20	-	79
	August	TVF Thyssen VEAG Flächenrecycling GmbH	-50	-	13

Note 4 Exchange rates

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

Country	Currency	Average rate		Balance sheet date rate	
		2006	2005	31 Dec 2006	31 Dec 2005
Euro	EUR	9.2617	9.2812	9.0500	9.4300
Denmark	DKK	1.2418	1.2456	1.2135	1.2640
Norway	NOK	1.1516	1.1559	1.0945	1.1760
Poland	PLN	2.3769	2.3062	2.3600	2.4400
USA	USD	7.3794	7.4455	6.8700	7.9530

Note 5 Net sales

	2006	2005
Sales including excise taxes		
sale of goods (electricity, heat, gas etc.)	145,313	129,866
rendering of services	5,130	4,825
Excise taxes	-4,628	-5,533
Net sales	145,815	129,158

Note 6 Segmental information

The Group's activities are mainly conducted within three geographic areas. These primary segments are the Nordic countries, Germany and Poland. There is also a segment termed Other (electricity trading, financial activities, research activities, service companies and Group functions). The Nordic countries segment mainly covers operations in the Nordic countries, but also includes activities in the Baltic States, the Netherlands and the UK. The primary segments consist of areas based on the locations of assets. Operating profit of the primary segment Other includes changes in market values for electricity trading. These are reported in Energy Trading until the amounts are realised. When the amounts are realised, other segments are affected.

The Group's activities are also divided into business segments (secondary segments), namely Electricity Generation, Electricity Markets (sales and trading), Electricity Networks (electricity transmission and distribution) and Heat (generation, distribution and sale of heat). Other activities include Vattenfall's financial activities, research activities, service companies and Group functions. Operating profit of the secondary segment Electricity Markets includes changes in market values for electricity trading. These are reported in Energy Trading until the amounts are realised. When the amounts are realised the segment Electricity Generation is the main segment affected.

Deliveries of electricity between segments are made at market prices. In the case of services between segments, cost prices generally apply, although in certain cases market prices are applied.

Primary segments

2006	Nordic countries	Germany	Poland	Other	Eliminations	Total
External net sales	48,235	69,905	8,981	18,694	-	145,815
Sales between segments	970	42,065	468	44,218	-87,721	-
Total	49,205	111,970	9,449	62,912	-87,721	145,815
Operating profit (EBIT)	13,287	13,059	1,072	-413	44	27,049
Operating profit (EBIT) excl. items affecting comparability	13,217	12,886	942	-413	44	26,676
Assets	154,005	165,596	18,127	122,823	-137,385	323,166
Liabilities	130,413	98,672	11,859	111,929	-137,381	215,492
Net assets	81,687	61,818	8,812	-4,405	2,053	149,965
Investments	11,744	6,305	845	14	-1,688	17,220
Depreciation and amortisation	4,372	9,423	728	51	-	14,574
Impairment losses	196	1,368	4	-	-	1,568
Reversed impairment losses	-	25	-	-	-	25
Participations in the results of associated companies	550	771	-	13	-	1,334
2005 ¹	Nordic countries	Germany	Poland	Other	Eliminations	Total
External net sales	40,712	70,304	8,790	9,352	-	129,158
Sales between segments	1,309	34,691	60	35,211	-71,271	-
Total	42,021	104,995	8,850	44,563	-71,271	129,158
Operating profit (EBIT)	16,794	10,113	842	-178	-	27,571
Operating profit (EBIT) excl. items affecting comparability	13,704	10,251	808	-178	-	24,585
Assets	137,671	173,982	17,302	106,427	-110,314	325,068
Liabilities	108,204	113,004	11,540	111,689	-110,278	234,159
Net assets	77,190	68,717	9,295	-2,034	2,069	155,237
Investments	17,432	5,072	812	1,200	-19	24,497
Depreciation and amortisation	4,203	9,123	656	44	-	14,026
Impairment losses	599	350	80	-	-	1,029
Reversed impairment losses	-	237	6	-	-	243
Participations in the results of associated companies	189	347	-	-2	-	534

Secondary segments

	Electricity Generation	Electricity Markets	Electricity Networks	Heat	Other	Eliminations	Total
2006							
External net sales	34,169	73,992	36,571	14,833	1,598	-15,348	145,815
Sales between segments	41,096	19,774	15,003	8,429	5,701	-90,003	-
Total	75,265	93,766	51,574	23,262	7,299	-105,351	145,815
Operating profit (EBIT)	19,762	355	3,947	4,130	-1,145	-	27,049
Operating profit (EBIT) excl. items affecting comparability	19,776	169	3,985	4,251	-1,505	-	26,676
Assets	210,100	29,993	83,104	43,443	136,635	-180,109	323,166
Investments	20,532	94	6,001	2,138	6,499	-18,044	17,220
2005 ¹							
External net sales	14,470	62,786	36,207	14,101	1,594	-	129,158
Sales between segments	42,944	10,476	14,606	6,824	5,684	-80,534	-
Total	57,414	73,262	50,813	20,925	7,278	-80,534	129,158
Operating profit (EBIT)	19,751	1,172	5,288	3,494	-2,134	-	27,571
Operating profit (EBIT) excl. items affecting comparability	16,742	1,171	5,373	3,540	-2,241	-	24,585
Assets	196,836	32,899	80,448	47,191	124,248	-156,554	325,068
Investments	5,818	269	4,776	2,605	13,178	-2,149	24,497

1) Certain figures are adjusted compared to previously published information in Vattenfall's 2005 Annual Report.

See Note 2 to the consolidated accounts, Accounting principles.

Note 7 Cost of products sold

Direct costs include production taxes and duties of SEK 5,341 million (4,198) and property taxes of SEK 1,152 million (597). The costs also include SEK 461 million (498) in interest components related to annual pension costs, net after deductions for expected returns on plan assets.

Note 8 Other operating income

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

For 2005 this item also includes the compensation for future production losses amounting to SEK 4,100 million which Vattenfall has received for the closing of the Barsebäck 2.

Note 9 Selling expenses, administrative expenses and research & development costs

The costs include SEK 311 million (295) in interest components related to annual pension costs, net after deductions for expected returns on plan assets.

Note 10 Other operating expenses

Other operating expenses primarily comprise capital losses from the sale of non-current assets, operationally derived exchange rate losses and closure and restructuring expenses.

Note 11 Depreciation and amortisation

Depreciation of property, plant and equipment and of investment property and amortisation of non-current intangible assets in the income statement are broken down as follows:

	2006	2005
Cost of products sold	13,843	13,496
Selling expenses	303	167
Administrative expenses	405	343
Research and development costs	4	1
Other operating expenses (investment property)	19	19
Total	14,574	14,026

Amortisation of non-current intangible assets is included in Cost of products sold above in the amount of SEK 415 million (521), Selling expenses in the amount of SEK 137 million (0) and Administrative expenses in the amount of SEK 194 million (141).

Note 12 Impairment losses and reversed impairment losses

Impairment losses of non-current intangible assets, property, plant and equipment and investment property in the income statement are broken down as follows:

	2006	2005
Cost of products sold	1,191	992
Selling expenses	193	-
Administrative expenses	2	11
Other operating expenses (investment property)	182	26
Total	1,568	1,029

Major impairment losses above include:

Costs for sold products

In 2006 Vattenfall was handed a decision from the German network regulator, Bundesnetzagentur, regarding tariff reductions for its transmission and distribution operations. The future loss of income that will result from this decision gave strong indications of a need to test the reported values of the assets involved. An impairment test has been performed for the respective cash-generating units.

The reported value of the cash-generating units has been compared with an estimated net present value based on future, sustainable cash flows. This has resulted in impairment losses totalling SEK 1,019 million for the distribution operations.

The discount rate for the networks amounts to 4% after tax, given the special risk situation for regulated operations.

Selling expenses

The development of a new customer handling system has resulted in higher outlays than originally estimated. The future gains that the new system was to generate do not match the higher cost. Consequently, operating profit has been changed with an impairment loss of SEK 192 million.

Investment properties

Each investment property, consisting of land and buildings, has been compared with an estimated market value less selling expenses. This

Note 12 continued

has give rise to impairment losses of investment properties in eastern Germany and for individual investment properties in Berlin, in the amount of SEK 182 million.

Reversed impairment losses of non-current intangible assets, property, plant and equipment and investment property in the income statement are broken down as follows:

	2006	2005
Cost of products sold	23	198
Selling expenses	-	43
Administrative expenses	2	-
Other operating expenses (investment property)	-	2
Total	25	243

Note 13 Operating costs according to type

	2006	2005
Personnel costs	19,249	18,664
Depreciation and amortisation	14,574	14,026
Impairment losses of non-current assets	1,568	1,029
Reversed impairment losses of non-current assets	-25	-243
Other operating costs incl. input commodities	87,053	74,042
Total	122,419	107,518

Note 14 Financial income

	2006	2005
Dividends	73	66
Interest income attributable to investments, etc.	1,341	980
Returns from the Swedish Nuclear Waste Fund	2,106	2,089
Net change in value from reassessment of derivatives	272	545
Net change in value from reassessment of other financial assets	35	117
Capital gains from divestments of shares and participations	12	13
Total	3,839	3,810

Note 15 Financial expenses

	2006	2005
Interest expenses attributable to loans, etc.	3,317	2,967
Discounting effects attributable to provisions	2,012	2,060
Exchange rate differences, net	25	171
Impairment losses on shares and participations	7	17
Capital losses from divestments of shares and participations	2	6
Total	5,363	5,221

See also Notes 9 and 11 to the consolidated accounts concerning interest components attributable to pension provisions.

Note 16 Income tax expense

Profit before tax excluding participations in the results of associated companies amounted to:

	2006	2005
Sweden	10,443	15,298
Other countries	13,748	10,328
Total	24,191	25,626

The reported income tax expense breaks down as follows:

	2006	2005
Current tax		
Current taxes related to the period:		
Sweden	1,668	2,248
Other countries	5,578	4,421
Adjustment of current taxes for prior periods:		
Sweden	-103	392
Other countries	-1,127	-900
Deferred tax		
Sweden	1,251	819
Other countries	-1,600	-1,338
Total	5,667	5,642

The difference between the nominal Swedish tax rate and the effective tax rate is explained as follows:

%	2006	2005
Swedish income tax rate	28.0	28.0
Difference in tax rate in foreign operations	4.8	3.3
Tax adjustment for previous periods, new tax law	-5.0	-
Tax adjustment for previous periods, other	0.3	-1.9
Amended tax rates	-	0.7
Non-deductible expenses and non-taxable income, net	-5.4	-8.5
Impairment losses on goodwill	-	0.3
Other	-0.5	0.1
Effective tax rate¹	22.2	22.0
Tax rate, current tax ²	24.9	24.0

1) Income tax expense according to the consolidated income statement in relation to profit before tax excluding participations in the results of associated companies.

2) Income tax expense according to the consolidated income statement excluding deferred tax in relation to profit before tax excluding participations in the results of associated companies.

Accumulated tax-loss carryforwards are broken down as follows:

	2006	2005
Sweden	13	19
Other countries	627	2,205
Total	640	2,224

The decrease in the reported amount is explained by the tax-loss carryforwards utilised in 2006.

The tax-loss carryforwards fall due as follows:

	2006
2007	182
No time limit	458
Total	640

A non-current tax asset for current tax has arisen following changed legislation in Germany (December 2006) which entails that a tax credit received during the years 2002–2005 pertaining to previously abolished rules regulating tax on dividends, can now be recovered without conditions for further distribution. The relaxed tax credit will be paid out during the years 2008–2017 and is represented in the balance sheet by a discounted value. As an effect of changed legislation, the income statement for 2006 has been credited in the amount of SEK 1,241 million as an adjustment of current taxes pertaining to previous periods.

Deferred tax assets and deferred tax liabilities are attributable to balance sheet items as follows:

Deferred tax assets	2006	2005
Non-current assets	3,208	3,016
Current assets	1,096	530
Equity	-	5,704
Non-current liabilities	6,296	5,274
Current liabilities	1,609	-171
Tax-loss carryforwards	66	216
Offsetting of deferred tax liabilities	-10,468	-
Total	1,807	14,569
Deferred tax liabilities	2006	2005
Non-current assets	32,436	32,533
Current assets	2,235	52
Equity	-	141
Non-current liabilities	4,309	4,664
Current liabilities	1,363	2,537
Offsetting of deferred tax assets	-10,468	-
Total	29,875	39,927

Deferred tax assets (changes in 2006)

Balance brought forward	14,569
Acquired companies	403
Additions/dissolutions for the period, net	-2,383
Divested companies	-2
Translation differences	-312
Offsetting of deferred tax liabilities	-10,468
Balance carried forward	1,807

Deferred tax liabilities (changes in 2006)

Balance brought forward	39,927
Acquired companies	734
Additions/dissolutions for the period, net	622
Divested companies	-18
Translation differences	-922
Offsetting of deferred tax assets	-10,468
Balance carried forward	29,875

Note 17 Minority interests

	2006	2005
Minority interests in profit before tax	1,503	1,422
Minority interests in income tax expense	-374	-139
Total	1,129	1,283

Note 18 Intangible assets: non-current

	Capitalised development costs		Goodwill		Concessions and similar rights with finite useful lives		Renting rights, mining rights and similar rights with finite useful lives		Total	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
Cost										
Cost brought forward	1,307	814	451	243	3,250	2,931	4,428	4,212	9,436	8,200
Acquired companies	-	-	-	180	-	135	-	-	-	315
Investments	110	426	-	-	122	159	354	17	586	602
Divestments/Disposals	-	-	-	-	-205	-43	-1	-4	-206	-47
Reclassifications	-	31	-	-	-135	-22	-	38	-135	47
Divested companies	-	-	-	-	-71	-3	-	-	-71	-3
Translation differences	-36	36	-16	28	-72	93	-157	165	-281	322
Accumulated cost carried forward	1,381	1,307	435	451	2,889	3,250	4,624	4,428	9,329	9,436
Accumulated amortisation according to plan¹										
Amortisation brought forward	-484	-274	-	-	-2,125	-1,885	-1,174	-892	-3,783	-3,051
Amortisation for the year	-277	-197	-	-	-245	-238	-224	-227	-746	-662
Divestments/Disposals	-	-	-	-	199	40	1	-	200	40
Reclassifications	-59	3	-	-	67	15	-	-17	8	1
Divested companies	-	-	-	-	44	3	-	-	44	3
Translation differences	25	-16	-	-	50	-60	45	-38	120	-114
Accumulated amortisation carried forward	-795	-484	-	-	-2,010	-2,125	-1,352	-1,174	-4,157	-3,783
Impairment losses										
Impairment losses brought forward	-	-	-183	-	-19	-17	-525	-317	-727	-334
Impairment losses for the year	-193	-	-	-180	-3	-	-	-205	-196	-385
Reclassifications	-	-	-	-	2	-	-	-	2	-
Divested companies	-	-	-	-	-	-1	-	-	-	-1
Translation differences	-	-	7	-3	1	-1	1	-3	9	-7
Accumulated impairment losses carried forward	-193	-	-176	-183	-19	-19	-524	-525	-912	-727
Residual value according to plan carried forward	393	823	259	268	860	1,106	2,748	2,729	4,260	4,926
Advance payment to suppliers	-	-	-	-	-	-	-	-	-	341
Total									4,260	5,267

1) Estimated useful lives are for Capitalised development costs 3-4 years, for Concessions etc., 3-30 years and for Renting rights, mining rights, etc., 3-50 years.

At 31 December 2006, contractual commitments for the acquisition of non-current intangible assets amounted to SEK 7 million.

Note 19 Property, plant and equipment

	Land and buildings ¹		Plants and other technical installations		Equipment, tools, and fixtures and fittings		Construction in progress ²		Total	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
Cost										
Cost brought forward ³	68,306	65,378	353,960	333,986	9,019	8,784	7,366	7,081	438,651	415,229
Acquired companies	–	28	4,306	185	–	19	85	–	4,391	232
Investments ⁴	2,607	431	13,236	2,476	776	530	11,365	8,727	27,984	12,164
Capitalised/Reversed future expenses for decommissioning, restoration, etc.	723	1,298	366	1,596	–	–	–1	–	1,088	2,894
Transfer from construction in progress	649	1,088	6,578	7,133	105	67	–7,332	–8,288	–	–
Divestments/Disposals	–1,151	–1,918	–5,608	–3,857	–498	–683	–121	–156	–7,378	–6,614
Other reclassifications	35	46	–7	80	–14	11	128	–124	142	13
Divested companies	–99	–119	–788	–140	–59	–28	–1	–1	–947	–288
Translation differences	–1,727	2,074	–10,675	12,501	–282	319	–122	127	–12,806	15,021
Accumulated cost carried forward	69,343	68,306	361,368	353,960	9,047	9,019	11,367	7,366	451,125	438,651
Accumulated depreciation according to plan⁵										
Depreciation brought forward	–31,338	–30,378	–208,346	–193,758	–7,472	–7,274	–	–	–247,156	–231,410
Acquired companies	–	–6	–189	–26	–	–15	–	–	–189	–47
Depreciation for the year	–1,686	–1,638	–11,548	–11,135	–575	–571	–	–	–13,809	–13,344
Divestments/Disposals	875	1,674	5,290	3,558	473	662	–	–	6,638	5,894
Other reclassifications	50	–20	–5	30	6	–18	–	–	51	–8
Divested companies	76	29	534	95	46	7	–	–	656	131
Translation differences	795	–999	6,195	–7,110	234	–263	–	–	7,224	–8,372
Accumulated depreciation carried forward	–31,228	–31,338	–208,069	–208,346	–7,288	–7,472	–	–	–246,585	–247,156
Impairment losses										
Impairment losses brought forward	–943	–877	–2,030	–1,604	–61	–51	–10	–9	–3,044	–2,541
Acquired companies	–	–10	–	–37	–	–	–	–	–	–47
Impairment losses for the year	–99	–167	–1,090	–443	–1	–8	–	–	–1,190	–618
Reversed impairment losses for the year	24	146	1	95	–	–	–	–	25	241
Transfer from construction in progress	–2	–	–	–	–	–	2	–	–	–
Divestments/Disposals	33	116	16	28	–	–	–	–	49	144
Other reclassifications	–38	–106	–	5	–	–	–	–	–38	–101
Translation differences	39	–45	90	–74	2	–2	–	–1	131	–122
Accumulated impairment losses carried forward	–986	–943	–3,013	–2,030	–60	–61	–8	–10	–4,067	–3,044
Residual value according to plan carried forward	37,129	36,025	150,286	143,584	1,699	1,486	11,359	7,356	200,473	188,451
Advance payment to suppliers									855	565
Total									201,328	189,016

1) Cost for land and buildings includes cost of land and water rights amounting to SEK 13,961 million (14,247), which are not subject to depreciation.

2) Interest during the construction period has been reported as an asset in the amount of SEK 75 million (7) for the year. The average fixed rate term for 2006 was 4.3 %.

3) Government grants received, balance brought forward, amount to SEK 4,760 million (4,409). Accumulated interest reported as an asset totalling SEK 648 million (573) is included in cost of buildings.

4) Government grants received during the year amounted to SEK 76 million (66)

5) Estimated useful lives are for Hydro power installations 5–40 years, for Combined heat and power installations 5–40 years, for Electricity distribution and transmission lines 5–35 years, for Mining operations 5–20 years, for Office equipment 5–10 years and for Office and warehouse buildings and workshops 25–50 years.

The extended useful life for the Group's Swedish nuclear power plants has resulted in lower depreciation of SEK 505 million compared to earlier estimations made.

Tax assessment values (for Swedish real estate)

	2006	2005
Buildings	86,505	92,579
Land	25,382	25,501
Total	111,887	118,080

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

At 31 December 2006, contractual commitments for the acquisition of property, plant and equipment amounted to SEK 8,532 million.

Note 20 Investment property

	2006	2005
Cost		
Cost brought forward	2,505	2,499
Investments	4	3
Divestments/Disposals	-178	-59
Reclassifications	-12	-53
Translation differences	-94	115
Accumulated cost carried forward	2,225	2,505
Accumulated depreciation according to plan¹		
Depreciation brought forward	-564	-540
Depreciation for the year	-19	-20
Divestments/Disposals	66	18
Reclassifications	-56	3
Translation differences	24	-25
Accumulated depreciation carried forward	-549	-564
Impairment losses		
Impairment losses brought forward	-685	-679
Impairment losses for the year	-182	-26
Reversed impairment losses for the year	-	2
Divestments/Disposals	61	24
Reclassifications	37	26
Translation differences	29	-32
Accumulated impairment losses carried forward	-740	-685
Residual value according to plan carried forward	936	1,256
Estimated fair value	1,156	1,594

1) The estimated useful life for investment property ranges from 25–50 years.

Investment property encompasses 156 (180) properties located in Berlin, Hamburg and eastern Germany. The estimated fair value has been defined as the amount at which the concerned property could be exchanged between knowledgeable, willing partners in an arm's length transaction. The fair value calculations have mainly been made by Vattenfall's own assessors. Rental income from external customers amounted to SEK 110 million in (114). Direct costs for the concerned properties amounted to SEK 355 million (248), of which SEK 176 million (82) is related to properties that did not generate rental income.

At 31 December 2006, contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements amounted to SEK 9 million.

Note 21 Shares and participations held by the Parent Company Vattenfall AB and other Group companies**Shares and participations held by Parent Company Vattenfall AB**

Group companies	Corporate Identity Number	Registered office	Number of shares 2006	Participation in % 2006	Book value 2006
Nordic countries					
Bergeforsens Kraft AB	556044-8887	Sundsvall	3,240	60	3
Energibolaget Botkyrka-Salem Försäljn. AB	556014-7406	Botkyrka	23,988	100	35
Forsaströms Kraft AB	556010-0819	Åtvidaberg	400,000	100	48
Forsmarks Kraftgrupp AB	556174-8525	Östhammar	198,000	66	198
Försäkrings AB Vattenfall Insurance	516401-8391	Stockholm	200,000	100	200
Gotlands Energi AB	556008-2157	Gotland	112,500	75	13
Produktionsbalans PBA AB	556425-8134	Stockholm	4,800	100	5
Ringhals AB	556558-7036	Varberg	248,572	70	379
Svensk Kärnbränslehantering AB ¹	556175-2014	Stockholm	360	36	0
Svenska Kraftbyggarna Entreprenad AB	556333-2468	Luleå	38,000	100	46
Säffle Årjärg Energi AB	556499-8689	Säffle	8,000	100	22
Vattenfall Bränsle AB	556440-2609	Stockholm	100	100	96
Vattenfall A/S	21 311 332	Copenhagen	10,040,000	100	12,878
Vattenfall Business Services Nordic AB	556439-0614	Stockholm	100	100	10
Vattenfall Fastigheter AB	556438-5952	Sundsvall	100	100	120
Vattenfall Inlandskraft AB	556528-2562	Jokkmokk	3,000	100	4
Vattenfall Oy	1071366-1	Helsinki	10,000	100	1,483
Vattenfall Power Consultant AB	556383-5619	Stockholm	12,500	100	15
Vattenfall Power Management AB	556573-5940	Stockholm	6,570	100	6
Vattenfall Eldistribution AB	556417-0800	Stockholm	8,000	100	11
Vattenfall Research & Development AB	556390-5891	Älvkarleby	14,000	100	17
Vattenfall Service Nord AB	556242-0959	Luleå	10,000	100	1
Vattenfall Service Syd AB	556417-0859	Trollhättan	16,000	100	18
Vattenfall Treasury AB (publ)	556439-0606	Stockholm	500	100	6
Vattenfall Vindkraft Sverige AB	556581-4273	Stockholm	2,500	100	71
Vattenfall Vindkraft Kriegers Flak AB	556622-5941	Stockholm	1,000	100	129
Vattenfall Vindkraft Lillgrund AB	556550-1292	Malmö	219,919	100	125
Vattenfall Vindkraft Trolleboda AB	556644-2595	Malmö	1,000	100	5
Vattenfall Vätter EI AB	556528-3180	Motala	100	100	291
Västerbergslagens Elnät AB	556565-6864	Ludvika	1,518	51	2
Västerbergslagens Energi AB	556565-6872	Ludvika	7,590	51	8
Västerbergslagens Kraft AB	556194-9784	Ludvika	89,726	58	19
Västerbergslagens Värme AB	556565-6856	Fagersta	5,566	51	6

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Note 21 continued

Group companies	Corporate Identity Number	Registered office	Number of shares 2006	Participation in % 2006	Book value 2006
Germany					
Vattenfall Deutschland GmbH	(HRB) 62659	Hamburg	2	100	18,868
Vattenfall Europe AG ²	HRB 86854	Berlin	77,456,046	38	10,828
Poland					
Vattenfall Heat Poland SA	38 440	Warsaw	18,377,346	75	3,240
Vattenfall Distribution Poland SA	RHB 9861	Gliwice	936,184	75	5,271
Vattenfall Poland Sp.z.o.o	270 893	Warsaw	10,000	100	5
Vattenfall Trading Services Sp.z.o.o	969-1406-317	Rejonow	80,000	100	9
Other countries					
Kentish Flats Ltd	4 130 301	London	25,000,000	100	1,196
Vattenfall Estonia OÜ	10142764	Tallinn	100	100	6
Vattenfall Reinsurance S.A.	(B) 49528	Luxembourg	13,000	100	13
Other companies					9
Total					55,715

1) Group companies own a further 20% through Forsmarks Kraftgrupp AB.

2) Vattenfall AB and other Group companies own a total of approx. 97% (97%) through Vattenfall Deutschland GmbH's holding.

Larger shareholdings held by other Group companies than the Parent Company Vattenfall AB

When calculating the participation percentages, consideration is made of the minority ownership in each owner company respectively.

	Registered office	Participation in % 2006
Nordic countries		
Barsebäck Kraft AB, Sweden	Malmö	70
Pamilo Oy, Finland	Uimaharju	100
Vattenfall Indalsälven AB, Sweden	Bispgården	74
Vattenfall Sähköntuotanto Oy, Finland	Helsinki	100
Vattenfall Verkko Oy, Finland	Helsinki	100
Germany		
Fernheizwerk Märkisches Viertel GmbH	Berlin	97
Fernheizwerk Neukölln AG	Berlin	73
Kernkraftwerk Brunsbüttel GmbH & Co. oHG	Hamburg	65
Koros GmbH & Co. KG	Cologne	95
Kraftwerke Schwarze Pumpe GmbH	Spremberg	97
Müllverwertung Borsigstrasse GmbH	Hamburg	83
MVR Müllverwertung Rugenberger Damm GmbH & Co. KG	Hamburg	53
Vattenfall Europe AG	Berlin	97
Vattenfall Europe Berlin AG & Co. KG (former Bewag AG & Co. KG)	Berlin	97
Vattenfall Europe Distribution Berlin GmbH	Berlin	97
Vattenfall Europe Distribution Hamburg GmbH	Hamburg	97
Vattenfall Europe Generation AG & Co. KG	Cottbus	97
Vattenfall Europe Hamburg AG (former Hamburgische Electricitäts-Werke AG)	Hamburg	97
Vattenfall Europe Mining AG	Cottbus	97
Vattenfall Europe Nuclear Energy GmbH	Hamburg	97
Vattenfall Europe Sales GmbH	Hamburg	97
Vattenfall Europe Transmission GmbH	Berlin	97
Vattenfall Europe Waste to Energy GmbH	Hamburg	97
Vattenfall Trading Services GmbH	Hamburg	97
WEMAG AG	Schwerin	78
Poland		
Nieruchomosci EWSA Grupa Vattenfall	Warsaw	75
Vattenfall Wolin-North Sp.z.o.o	Szczecin	75

Note 22 Participations in associated companies

	2006	2005
Balance brought forward	23,421	12,286
Investments	-	10,325
New share issues and shareholders' contributions	13	18
Divestments	-11,315	-2
Reclassifications	-	-4
Profit participations and dividends	666	-38
Translation differences	-659	836
Balance carried forward	12,126	23,421

Shares and participations owned by the Parent Company Vattenfall AB or by other Group companies.

	Corporate Identity Number	Registered office	Number of shares 2006	Participation in % 2006	Book value Group 2006	Book value Parent Company 2006
Associated companies held by the Parent Company Vattenfall AB						
Nordic countries						
Gulsele AB, Sweden	556001-1800	Sollefteå	84,000	35	338	332
Luleå Energi AB, Sweden	556139-8255	Luleå	54,000	30	217	3
PiteEnergi AB, Sweden	556330-9227	Piteå	70,000	50	200	7
Plusenergi AB, Sweden	556572-4696	Gothenburg	50,000	50	178	171
Preem Gas AB, Sweden	556037-2970	Stockholm	750	30	8	6
SwePol Link AB, Sweden	556530-9829	Stockholm	96,000	16	15	1
Associated companies held by other Group companies than the Parent Company Vattenfall AB						
Germany						
ENSO Strom AG	HRB 965	Dresden	436,926	29	979	–
GASAG Berliner Gaswerke AG	HRB 44343	Berlin	8,100,000	32	3,187	–
Kernkraftwerk Krümmel GmbH & Co. oHG	HRB 15033	Hamburg		50	3,916	–
Kernkraftwerk Stade GmbH & Co. oHG	HRB 12163	Hamburg		33	932	–
Kernkraftwerk Brokdorf GmbH & Co. oHG	HRB 17623	Hamburg		20	1,742	–
Städtische Werke AG	HRB 2150	Kassel	121,148	25	390	–
Other companies					24	–
Total					12,126	520

Amounts relating to held participation of associated companies' revenues, profit, assets and liabilities:

	Revenues 2006	Profit 2006	Assets 31 Dec. 2006	Liabilities 31 Dec. 2006
Associated companies held by the Parent Company Vattenfall AB				
Gulsele AB, Luleå Energi AB, PiteEnergi AB, Plusenergi AB, Preem Gas AB and SwePol Link AB	2,128	49	1,680	1,083
Associated companies held by other Group companies than the Parent Company Vattenfall AB				
GASAG Berliner Gaswerke AG	3,456	223	7,091	5,240
Kernkraftwerk Krümmel GmbH & Co. oHG, Kernkraftwerk Stade GmbH & Co. oHG and Kernkraftwerk Brokdorf GmbH & Co. oHG	1,755	371	17,403	10,567
Other companies	2,388	165	3,187	1,834
Total	9,727	808	29,361	18,724

Note 23 Other shares and participations

	2006	2005
Balance brought forward	747	2,448
Investments	581	8
New share issues and shareholders' contributions	–	1
Divestments	–32	–61
Reclassifications	–1	–51
Reclassifications to subsidiaries	–	–1,667
Impairment losses	–4	–13
Translation differences	–37	82
Balance carried forward	1,254	747

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Note 23 continued

	Participation in % 2006	Book value Group 2006	Parent Company 2006	Book value Company 2006
Shares and participations held by the Parent Company Vattenfall AB				
Nordic countries				
Jämtkraft AB, Sweden	20 ¹	23		23
Metrima AB, Sweden	4	6		6
Solibro AB, Sweden	18	3		3
Other companies		3		3
Other countries				
Eutilia, Netherlands	8	3		3
Shares and participations held by other Group companies than the Parent Company Vattenfall AB				
Germany				
EHA Energie Handels Gesellschaft mbH & Co KG	50	13		–
GNS Gesellschaft für Nuklear-Service GmbH	6	23		–
Stadtwerke Eilenburg GmbH	49	51		–
Stadtwerke Parchim GmbH	15	27		–
Stadtwerke Rostock AG	12	363		–
Stadtwerke Wittenberge GmbH	23	25		–
Other companies		92		–
Other countries/companies				
Asikkalan Voima Oy, Finland	50	9		–
Ensteds Havn I/S, Denmark	50	564		–
Terki Oy, Finland	20	12		–
Åtvidabergs Fjärrvärme AB, Sweden	50	10		–
ELINI, Netherlands	22 ²	27		–
Total		1,254		38

1) The share of voting rights is 16%.

2) The share of voting rights is 14%.

Note 24 Share in the Swedish Nuclear Waste Fund

	2006	2005
Balance brought forward	21,403	19,447
Payments	501	528
Disbursements	–689	–661
Returns	2,106	2,089
Balance carried forward	23,321	21,403

According to the Swedish Nuclear Activities Act (1984:3), any organisation in Sweden with a permit to own or run a nuclear installation is obliged to demolish the plant in a safe manner, to manage spent fuel and other radioactive waste and to conduct necessary research and development. The permit holder shall also finance said management, etc.

The Swedish Act on the Financing of Future Expenses of Spent Nuclear Fuel etc. (1992:1537, latest amendment 1995:1544) ensures said financing by requiring that the permit holder pays a fee based on generation. This fee is paid to the Swedish Nuclear Waste Fund, which manages the received funds. The fund reimburses the owner of the reactor for expenses as the owner's obligations pursuant to the Swedish Nuclear Activities Act (1984:3) are fulfilled. According to agreements between the Swedish state, Vattenfall AB and E.ON Sverige AB, fund assets for Ringhals AB shall be managed by Vattenfall AB and fund assets for Barsebäck Kraft AB by E.ON Kärnkraft Sverige AB.

On 31 December, the fair value of the Vattenfall Group's share of the Swedish Nuclear Waste Fund was SEK 23,981 million (23,889).

As stated in Note 35 to the consolidated accounts, provisions for future expenses for decommissioning, etc. within Swedish nuclear power operations amount to SEK 18,668 million (18,149).

Contingent liabilities attributable to the Swedish Nuclear Waste Fund are described in Note 42 to the consolidated accounts.

Note 25 Other non-current receivables

	Receivables from associated companies		Other receivables	
	2006	2005	2006	2005
Balance brought forward	2,249	1,860	2,036	5,896
New receivables	46	2	8,194	185
Payments received	–1,791	–52	–4,979	–3,962
Impairment losses	–	–	–4	–5
Divested companies	–36	–3	–21	–
Reclassifications	–	380	–42	–233
Translation differences	–	62	–32	155
Balance carried forward	468	2,249	5,152	2,036
Breakdown of receivables:				
	2006	2005	2006	2005
Non-current interest-bearing receivables	60	2,152	3,680	473
Non-current noninterest- bearing receivables	408	97	1,472	1,563
Total	468	2,249	5,152	2,036

Note 26 Inventories

	2006	2005
Nuclear fuel		3,710
Materials and spare parts		2,263
Fossil fuel		2,231
Other		1,180
Total	9,384	7,314

Inventories recognised as an expense during 2006 amount to SEK 20,019 million. Inventory impairment losses amounted to SEK 200 million during the year.

Note 27 Intangible assets: emission allowances

Attributable to emission allowances purchased. See Note 2 to the consolidated accounts, Accounting principles.

	2006
Balance brought forward	–
Emission allowances purchased during the year	950
Impairment losses	–204
Balance carried forward	746

Note 28 Trade receivables and other receivables

	2006	2005
Accounts receivable - trade	18,084	16,758
Receivables from associated companies	1,622	478
Other receivables	7,423	11,244
	27,129	28,480
Derivatives with positive fair values	5,370	9,467
Total	32,499	37,947

Note 29 Prepaid expenses and accrued income

	2006	2005
Prepaid insurance premiums	9	37
Prepaid expenses, other	919	501
Prepaid expenses and accrued income, electricity	1,623	2,132
Accrued income, other	1,787	1,789
Total	4,338	4,459

Note 30 Short-term investments

	2006	2005
Interest-bearing investments	6,670	7,243
Shares	864	782
Total	7,534	8,025

Note 31 Cash and cash equivalents

	2006	2005
Cash and cash equivalents	3,343	4,850
Interest-bearing investments	11,291	1,199
Total	14,634	6,049

Note 32 Capital Securities

In June 2005, Vattenfall issued Capital Securities, which are reported as interest-bearing non-current liabilities. The tenor of the Capital Securities is perpetual and they are junior to all of Vattenfall's unsubordinated debt instruments. There is no redemption requirement, although the intention is to repay the loan. The interest is fixed for the initial ten-year period, thereafter a floating rate is applied. The interest is conditional upon, among other things, Vattenfall's means of paying dividends to shareholders and the key ratio "Interest Coverage Trigger Ratio" amounting to at least 2.5.

	2006	2005
Balance brought forward	9,268	–
Original amount	–	9,248
Discount allocation	16	9
Translation differences	-373	11
Balance carried forward	8,911	9,268

The Interest Coverage Trigger Ratio key ratio is calculated as follows:

	2006	2005
Funds from operations (FFO)	35,673	31,386
Interest paid	2,927	2,230
FFO plus interest paid (a)	38,600	33,616
Interest expenses (b)	3,317	2,967
Interest Coverage Trigger Ratio (a/b)	11.64	11.33

Note 33 Other interest-bearing liabilities (non-current)

	2006	2005
Bond loans	30,908	38,808
Liabilities to credit institutions	7,416	7,300
Liabilities to minority owners	4,644	4,003
Liabilities to associated companies	2,973	9,052
Other liabilities	927	702
Total	46,868	59,865

Of the above liabilities, the following amounts are due after more than five years: Bond loans SEK 13,049 million (15,572), Liabilities to credit institutions SEK 3,477 million (3,579), Liabilities to minority owners SEK 4,494 million (3,827) and Other liabilities SEK 147 million (138).

Note 34 Financial risks**Financial risks**

The Group's financial risks are mainly managed by Vattenfall Treasury AB, which houses the Group's internal bank and finance function. These finance operations are intended to provide cost-effective management of the Group's financial risks.

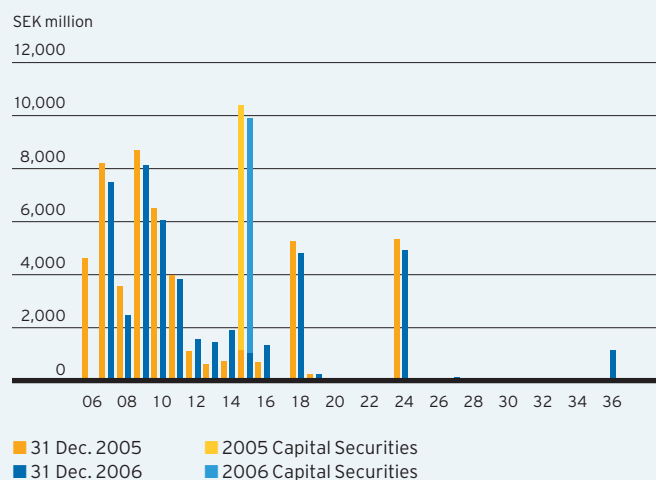
The Group's funding, investments and currency trading are mainly carried out by Vattenfall Treasury AB and, to a lesser extent, by Vattenfall Europe AG. The Group's liquidity is centralised using so-called group cash pool systems. Speculative investments are made to a limited extent within fixed risk limits.

Financing risk

Financing risk is minimised through a debt portfolio with an even maturity profile and a long average remaining term. The maturity profile of Vattenfall's debt is shown in the diagram below. On 31 December, the average maturity was 6.2 years (6.0) excluding Capital Securities and loans from minority owners and associated companies. The aim is for it to exceed 5 years.

To safeguard the availability of funds and maintain flexibility, the Group has several types of debt issuance programmes. At present, there are two commercial paper programmes, two medium term note (MTN) programmes and one Polish bond programme. In addition, Vattenfall has approximately SEK 9.4 billion (17.8) in committed credit facilities.

The Group's target for short-term liquidity is always to have no less than 10% of the Group's sales and at least the equivalent of the next 90 days' maturities in the form of liquid assets or committed credit facilities. Vattenfall's credit rating for long-term and short-term borrowing respectively is A-/A-2 from Standard & Poor's and A2/P-1 from Moody's. Vattenfall's goal with regard to credit rating is to retain a rating in the Single A category.

Maturity profile in debt portfolio¹**Borrowing programmes and credit facilities**

Programmes	Maximum aggregate amount	Currency	Maturity	Used portion, %	Reported external liability
Commercial Paper	15,000	SEK		–	–
Euro Commercial Paper	2,000	USD		40	–
Medium Term Note	10,000	SEK		8	849
Euro Medium Term Note	6,000	USD		69	36,472
Polish Commercial Paper	1,000	PLN		–	–
Committed credit facilities					
Revolving Credit Facility ¹	1,000	EUR	2013	–	–
Bank overdraft facilities	371	SEK		–	–
Other credit facilities					
Bank overdraft facilities and other lines of credit	10,216	SEK		2	–
Total					37,321

1) Back-up facility for short-term borrowing.

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Note 34 continued

Benchmark bonds

Type	Currency	Amount	Coupon, %	Maturity
Euro Medium Term Note	EUR	500	6.125	2007
Euro Medium Term Note	EUR	650	6.000	2009
Euro Medium Term Note	EUR	500	6.000	2010
Euro Medium Term Note	EUR	500	5.000	2018
Euro Medium Term Note	EUR	500	5.375	2024

Interest rate risk

Interest rate risk in the Group's debt portfolio is measured as the duration, which at year-end was 2.6 years (2.5) excluding Capital Securities and loans from minority owners and associated companies. The duration is permitted to vary from a norm of 2.5 years by up to 12 months either way. Interest rate swaps, interest rate terms and options, for example, are used to adjust the duration in borrowing.

Remaining fixed rate term in loan portfolio

Excluding Capital Securities and loans from minority owners and associated companies. Nominal amount.

	SEK	EUR	Other	Total
< 3 months	-17,197	-7,539	166	-24,570
3 months-1 year	8,365	1,377	-	9,742
1 year-5 years	31,632	25,542	1,227	58,401
> 5 years	2,050	1,639	-	3,689
Total	24,850	21,019	1,393	47,262

Average financing rate, %	4.4	3.5	4.3	4.0
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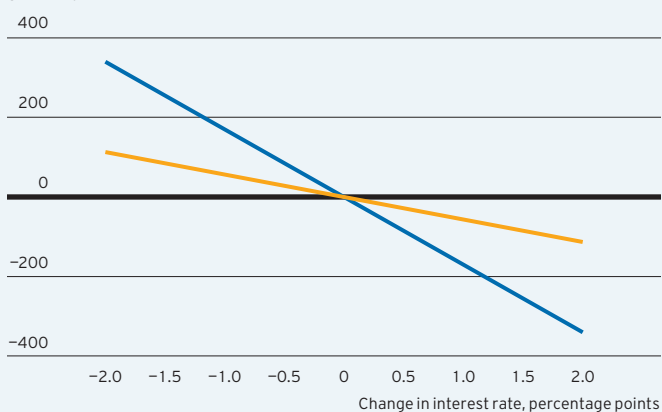
Remaining fixed rate term in loan portfolio

Excluding Capital Securities and loans from minority owners and associated companies. Nominal amount.

	Debt	Derivatives	Total
< 3 months	6,056	-30,626	-24,570
3 months-1 year	7,180	2,562	9,742
1 year-5 years	19,694	38,707	58,401
> 5 years	13,511	-9,822	3,689
Total	46,441	821	47,262

Interest rate sensitivity, excluding Capital Securities and loans from minority owners and associated companies

SEK million



The diagram shows how changes in interest rates affect the Group's interest expenses over a 12-month period based on the Group's present fixed rate structure.

Currency risk

Currency risk is the risk of negative effects on Vattenfall's earnings and balance sheet as a result of exchange rate fluctuations. Vattenfall is exposed to currency risk through exchange rate fluctuations attributable to future cash flows – so-called transaction exposure – and in the reassessment of net assets in non-Swedish subsidiaries, so-called translation exposure.

The Group's goal in managing currency risk is to minimise foreign exchange losses while taking into account hedging costs and tax aspects. Currency exposure in borrowing is eliminated using interest currency swaps for the purpose of avoiding the effect of exchange rate differences on earnings.

Loan portfolio, breakdown per currency

Including loans from minority owners and associated companies but excluding Capital Securities. Nominal amount.

Original currency	Debt	Derivatives	Total
DKK	1,388	-	1,388
CZK	164	-164	-
EUR	46,951	-14,929	32,022
HKD	679	-679	-
JPY	3,440	-3,440	-
NOK	383	-383	-
PLN	6	-	6
SEK	7,627	22,134	29,761
USD	1,718	-1,718	-
Total	62,356	821	63,177

The Group has limited transaction exposure, as the greater part of energy generation, distribution and sales is made in each company's local market. In the Nordic operations, most transaction exposure is in EUR in conjunction with the hedging of electricity prices, primarily in Nord Pool. This currency exposure is hedged with forward exchange rate contracts. In the German subsidiaries, transaction exposure arises primarily in USD in conjunction with the purchase of fuel. Also this currency exposure is hedged with forward exchange rate contracts.

Consolidated operating revenues/expenses per currency, %

Currency	Revenues	Expenses
EUR	63	67
SEK	29	23
PLN	6	7
DKK	2	2
USD	-	1
Total	100	100

The amounts are calculated from a statistical compilation of external operating revenues/expenses. Changes in inventories and investments are not included in the compilation. The Group's units shall hedge contracted transaction exposure when it exceeds the equivalent of SEK 10 million. Hedges shall be made through Vattenfall's treasury units in Sweden or Germany, where currency risks are managed within established risk limits for interest rates and currencies. The Group's policy with regards to translation exposure is that equity shall be fully hedged with certain restrictions and with consideration for tax effects. A change in exchange rates of 5% would affect consolidated equity by approximately SEK 2,390 million (1,570). Translation exposure is managed as described under the headings Derivative instruments and Hedging, respectively, in Note 2 to the consolidated accounts, Accounting Principles.

Translation exposure

Currency	Equity	Hedging after tax	Net exposure after tax
EUR	62,462	37,581	24,881
PLN	15,118	-	15,118
DKK	12,892	5,365	7,527
Other	393	194	199
Total	90,865	43,140	47,725

Credit risk

The Group is exposed to credit risks when trading in electricity, making investments and trading in derivative contracts. The Group's policy is to primarily use liquid assets to repay loans. Remaining liquidity is invested in part in the short term (to manage daily variations in the Group's liquidity flows) and in part in the long term. The Group's long-term investment portfolio is intended to secure legal requirements regarding capital availability for nuclear power operation in Germany. Investments are made in accordance with established investment rules with counterparts with low credit risks. The proportion of shares in the long-term investment portfolio may not exceed 30% of the assets. As of 31 December, the proportion of shares was 23% (20%). The average interest rate was 3.9% (3.4%) while the average duration was 3.3 years (2.8).

Credit risks are managed within the framework of established limits based on external ratings or internal credit assessments. Individual limits are established for each counterpart and each counterpart is regularly re-assessed. Exposure is monitored in relation to credit limits on a daily basis.

Prior to long-term agreements being entered into, a general master agreement, such as an ISDA, FEMA or EFET, is required. In the Nordic coun-

tries, the majority of financial electricity contracts are settled via Nord Pool and the larger part of the credit risk arising is in the marketplace. In Germany, prices are hedged in a similar manner against EEX, even if OTC trade between bilateral counterparts is also common.

Credit risks

Type of instrument	Exposure
Electricity derivatives, positive fair values	2,229
Electricity derivatives, settlement risk	1,775
Interest and currency derivatives, positive fair values	1,912
Interest-bearing investments including large bank balances	18,524
Shares	864
Total	25,304

Exposure in interest and currency derivatives adjusted for ISDA agreements or equivalents amounts to SEK 1,912 million (2,724). Without adjustment, exposure is SEK 3,649 million (5,196).

Note 35 Interest-bearing provisions

	Non-current portion		Current portion		Total	
	2006	2005	2006	2005	2006	2005
Provisions for future expenses of nuclear operations	26,078	25,919	280	154	26,358	26,073
Provisions for future expenses of mining operations and other environmental measures/undertakings	9,452	8,074	843	962	10,295	9,036
Personnel-related provisions for non-pension purposes	3,642	3,980	1,045	1,293	4,687	5,273
Provisions for tax and legal disputes	5,014	3,437	1,488	2,062	6,502	5,499
Other provisions	1,178	1,566	197	244	1,375	1,810
Total	45,364	42,976	3,853	4,715	49,217	47,691

A discount rate of 5.0% (5.0%) has been used for interest-bearing provisions. See also Note 49 to the consolidated accounts.

Provisions for future expenses of nuclear operations:

Vattenfall's nuclear power producers in Sweden and Germany have a legal obligation upon the cessation of production to decommission and dismantle the nuclear power plants and to restore the plots of land where the plants were located. Further, this obligation also encompasses the safeguarding and final storage of spent radioactive fuel and other radioactive materials used by the plants. The provisions include future expenses for the management of low and medium level radioactive waste.

For Swedish operations, current estimations indicate that approximately 87% of the provisions will result in disbursements after 2016. The remaining 13% is estimated to result in relatively evenly distributed disbursements over the years 2007–2016. Existing plans for the decommissioning of the German nuclear power operations entail about 92% of the provisions resulting in cash flows after 2008. For 2007 and 2008, respectively, disbursements are estimated at about 4% per year of the provisions.

Provisions for future expenses of nuclear operations (changes in 2006)

	Sweden	Germany	Total
Balance brought forward	18,149	7,924	26,073
Provisions for the period	433	40	473
Discounting effects	888	360	1,248
Provisions used	-802	-301	-1,103
Reversed provisions	-	-5	-5
Translation differences	-	-328	-328
Balance carried forward	18,668	7,690	26,358

Provisions for future expenses of mining operations and other environmental measures/undertakings:

Provisions are made for restoring sites and other undertakings connected with the Group's permits for conducting lignite mining in Germany. Provisions are also made for environmental measures/undertakings within other activities carried out by the Group.

According to current assessments, some 79% of the provisions will result in cash outflows later than 2009. For 2007, disbursements are

estimated at about 8% of the provisions, while disbursements corresponding to the remaining approx. 13% are estimated to be relatively evenly distributed over the years 2008–2009.

Provisions for mining operations, etc. (changes in 2006)

Balance brought forward	9,036
Acquired companies	696
Provisions for the period	1,317
Discounting effects	395
Provisions used	-387
Reversed provisions	-368
Translation differences	-394
Balance carried forward	10,295

Personnel-related provisions for non-pension purposes:

Provisions are made for future costs relating to redundancy in the form of severance pay and other costs for giving notice to personnel. Approximately 22% of the provisions that have been made are expected to result in disbursements in 2007 while about 35% is expected to be disbursed in 2008 and 2009. Thereafter, approximately 43% will be relatively evenly distributed over the years 2010–2021.

Personnel-related provisions for non-pension purposes (changes in 2006)

Balance brought forward	5,273
Provisions for the period	817
Discounting effects	203
Provisions used	-1,070
Reversed provisions	-299
Divested companies	-17
Translation differences	-220
Balance carried forward	4,687

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Note 35 continued

Provisions for tax and legal disputes:

Provisions are made for possible future tax expenses due to ongoing tax audits and for ongoing legal disputes and actions. These include provisions related to ongoing legal actions concerning encroachment as regards cable laying on land in eastern Germany.

Approximately 33% of the provisions for tax and legal disputes are expected to result in disbursements in 2007–2008. The remaining provisions are estimated to result in cash flows during the years 2009–2011 (59%) and 8% thereafter.

Provisions for tax and legal disputes (changes in 2006)

Balance brought forward	5,499
Provisions for the period	1,744
Discounting effects	-5
Provisions used	-302
Reclassified provisions	-4
Reversed provisions	-171
Divested companies	-3
Translation differences	-256
Balance carried forward	6,502

Other provisions

Other provisions include, among others, those for losses on contracts, restructuring and guarantee commitments.

Approximately 14% of these provisions are expected to result in disbursements in 2007, while the remaining approximately 66% is expected to result in disbursements during 2008–2010 and 20% thereafter.

Other provisions (changes in 2006)

Balance brought forward	1,810
Acquired companies	73
Provisions for the period	161
Discounting effects	19
Provisions used	-288
Reversed provisions	-335
Divested companies	-3
Translation differences	-62
Balance carried forward	1,375

Note 36 Pension provisions**General**

Vattenfall's pension obligations in the Group's Swedish and German companies are predominantly defined benefit pension obligations. The concerned pension plans are primarily retirement pensions, disability pensions and family pensions. The assets in these funds, the plan assets, are reported at fair value. There are also pension plans in these and other countries that are defined contribution plans.

Pension obligations are calculated on an actuarial basis in accordance with the Projected Unit Credit Method. Actuarial gains and losses are taken up as income and expenses, respectively, and are evenly distributed over the employees' remaining service periods to the extent that the total gain or loss for a particular pension plan falls outside a corridor equal to 10% of the greater of the pension obligation and the fair value of the plan assets for each individual plan.

Swedish pension plans

The Swedish pension plans supplement the Swedish social insurance system and are the result of agreements between employer and employee organisations. Almost all of Vattenfall's employees in Sweden are covered by a pension plan that is primarily a defined benefit plan, known as ITP-Vattenfall. This pension plan guarantees employees a pension based on a percentage of their salary. These benefits are secured in a pension foundation through provisions in the balance sheet or insurance premiums.

Vattenfall's obligations for retirement pensions and family pensions for salaried employees in Sweden are secured through an insurance policy from Alecta. According to a statement issued by the Swedish Financial Accounting Standards Council's emerging issues task force, URA 42, this plan is a multi-employer defined benefit plan. As in previous years, Vattenfall has not had access to such information as to make

it possible to report this plan as a defined benefit plan. The ITP pension plan, which is secured through an insurance policy from Alecta, is therefore reported as a defined contribution plan. Contributions for the year for pension insurance policies from Alecta amount to SEK 136 million (130). Alecta's surplus can be distributed between the policyholders and/or the insured parties. At the end of 2006, Alecta's surplus in the form of its so-called collective funding amounted to 144% (128%). Collective funding comprises the fair value of Alecta's assets as a percentage of the insurance obligations calculated in accordance with Alecta's insurance calculation principles and assumptions, which are not in agreement with IAS 19.

German pension plans

The pension plans in Germany are based on collective agreements in line with market terms and conditions. Substantial defined benefit plans exist in Germany for employees of the companies Vattenfall Europe Berlin (former Bewag) and Vattenfall Europe Hamburg (former HEW).

Vattenfall Europe Berlin has two pension plans, both financed through Pensionskasse der Bewag, a mutual insurance company. This plan is financed through funds from Vattenfall Europe Berlin and its employees. One plan has been assessed as a defined contribution plan and is reported as such since the benefit is dependent on the contributions paid and Pensionskasse der Bewag's financial position. For employees who began their employment before 1 January 1984, there is a supplementary agreement providing employees working until retirement age with a pension equal to up to 80% of the salary on which the pension is based. Half of the statutory pension and the entire benefit from Pensionskasse der Bewag, including profits, are credited to the guaranteed amount. Vattenfall Europe Berlin's obligations encompass the entire pension commitment. The plan assets attributable to personnel employed since before 1 January 1984 are reported as plan assets at fair value. Pension obligations for Vattenfall Europe Hamburg employees mainly comprise of the company's obligations to personnel employed before 1 April 1991 and who have been employed for at least 10 years. The sum of the retirement pension, statutory pension and pensions from third parties normally amounts to a maximum of 65% of the salary on which the pension is based.

Defined benefit obligations

	2006	2005
Present value of unfunded obligations	17,028	19,049
Present value of fully or partly funded obligations	18,619	18,566
Present value of obligations	35,647	37,615
Fair value of plan assets	15,977	16,248
Present value of net obligations	19,670	21,367
Unrecognised actuarial gains (+)/ losses (-) of the obligations	-3,128	-4,474
Unrecognised actuarial gains (+)/ losses (-) of plan assets	335	539
Pension provisions	16,877	17,432
Changes in obligations		
	2006	2005
Balance brought forward	37,615	32,313
Benefits paid by the plan	-1,681	-1,592
Service costs	612	550
Difference between expected and actual return (actuarial gain (+) or loss (-))	-1,201	3,392
Current interest expense	1,523	1,639
Translation differences	-1,221	1,313
Balance carried forward	35,647	37,615
Changes in plan assets		
	2006	2005
Balance brought forward	16,248	14,972
Benefits paid by the plan	-400	-388
Expected return on plan assets	751	847
Difference between expected and actual return (actuarial gain (+) or loss (-))	-205	349
Translation differences	-417	468
Balance carried forward	15,977	16,248

Plan assets consist of the following

	2006	2005
Equity securities	4,586	3,992
Debt instruments	9,579	10,524
Property	559	600
Other	1,253	1,132
Total	15,977	16,248

Historical information

	2006	2005	2004
Present value of obligations	35,647	37,615	32,313
Fair value of plan assets	15,977	16,248	14,972
Present value of net obligations	19,670	21,367	17,341

The Group expects to pay SEK 1,241 million in contributions to defined benefit plans in 2007.

Pension costs

	2006	2005
Defined benefit plans:		
Current service cost	547	470
Interest expense	1,523	1,639
Expected return on plan assets	-751	-846
Past service cost	60	73
Other	57	60
Total cost for defined benefit plans	1,436	1,396
Cost for defined contribution plans	444	294
Total pension costs	1,880	1,690

Pension costs are reported in the following rows in the income statement:

	2006	2005
Cost of products sold	1,123	1,063
Selling expenses	153	152
Administrative expenses	559	447
Research and development costs	45	28
Total pension costs	1,880	1,690

In calculating pension obligations, the following actuarial assumptions have been made (%):

	2006	2005
Discount rate	3.75-4.50	3.75-4.25
Expected return on plan assets	4.35-5.25	4.35-5.25
Future annual salary increases	2.5-3.5	2.5-3.5
Future annual pension increases	1.0-2.5	2.0

Note 37 Other noninterest-bearing liabilities (non-current)

Of the total liabilities of SEK 2,320 million (2,425), SEK 1,411 million (1,256) falls due after more than five years.

Note 38 Trade payables and other liabilities

	2006	2005
Advance payments from customers	225	1 335
Accounts payable - trade	10,189	9,393
Liabilities to associated companies	1,051	982
Other liabilities	3,388	3,210
	14,853	14,920
Derivatives with negative fair values	12,823	18,986
Total	27,676	33,906

Note 39 Accrued expenses and deferred income

	2006	2005
Accrued personnel-related costs	3,263	3,199
Accrued expenses, carbon dioxide emissions	442	302
Accrued expenses, connection fees	455	254
Accrued nuclear power-related fees and taxes	61	62
Accrued interest expense	1,619	1,560
Other accrued expenses	2,982	1,968
Deferred income and accrued expenses, electricity	3,919	3,220
Other deferred income	1,626	1,475
Total	14,367	12,040

Note 40 Interest-bearing liabilities (current)

	2006	2005
Bond loans	6,412	3,008
Liabilities to credit institutions	831	1,028
Liabilities to minority owners	312	635
Liabilities to associated companies	7,985	4,679
Other liabilities	256	180
Total	15,796	9,530

Note 41 Pledged assets

	2006	2005
For own liabilities and provisions		
Liabilities to credit institutions:		
Real estate mortgages	1,173	6
Blocked bank funds as security for trading on energy exchanges	40	2,246
Blocked bank funds as security for redemption of minority shares	2,913	2,629
Other	3	2
Total	4,129	4,877

Note 42 Contingent liabilities

	2006	2005
Guarantees	6,539	1,256
Other contingent liabilities	11,071	9,738
Swedish Nuclear Waste Fund	5,643	5,377
Total	23,253	16,371
Other contingent liabilities		
Compensatory and free power deliveries:		
Wholesale power deliveries		
Number of commitments	13	13
Power MW	223	223
Energy deliveries, TWh/year	0.9	0.9

On some rivers, several hydro power stations share regulation facilities. The owners of the stations are each liable for their share of the regulation costs.

Under Swedish law, Vattenfall has a strictly unlimited liability for third-party damage resulting from dam accidents. Together with other hydro power producers in Sweden, Vattenfall has taken out liability cover which will pay out a maximum of SEK 7,000 million for these types of claims.

As a natural part of the Group's business and in addition to the obligations specified above, guarantees are put in place for the fulfilment of various contractual obligations.

Vattenfall AB has issued guarantees amounting to SEK 4,978 million for certain associated companies' deposits of funds with Vattenfall Treasury AB.

Within its German operations, Vattenfall conducted a number of leasing transactions involving power plants in 1999 and 2000. The basis for the transactions is the right of use of power plants leased to US coun-

Note 42 continued

terparts as part of so-called head leases, lasting a maximum of 99 years, and thereafter leased back for 24 years as part of so-called subleases. After the subleases expire, Vattenfall has the right to regain the right of use through a call option. Rent from the US counterparts has been received in advance and has been deposited in financial institutions with high credit ratings for the payment of sums due in accordance with the subleases, including payment of the options. The net difference between rental payments received and deposits made has been reported as a net figure at the time the lease contracts were entered. Should the lessees or the underlying customers fail to meet their obligations during the leasing period, this will incur termination costs for Vattenfall. On the closing date, these obligations amounted to a maximum of SEK 1,329 million (1,392), which is included in the reported contingent liabilities.

Within its Swedish operations, Vattenfall conducted a number of leasing transactions involving power plants in 2003 and 2005. The transactions are based on sale and lease-back agreements for each power plant, which were sold to French counterparts to be rented back for 15 years. Once the leasing periods expire, Vattenfall has the right to purchase the plants via call options. Income from the sale to the French counterparts has been deposited with financial institutions with high credit ratings for the disbursement of the leasing payments, including the sums for the options. Should Vattenfall wish to prematurely redeem the leasing agreements, this would give rise to costs for Vattenfall. On the balance sheet date, these costs amounted to a maximum of SEK 92 million (97).

In Germany, nuclear power operators have unlimited liability. The combined mandatory insurance coverage for all these operators is EUR 2,500 million. Claims of up to EUR 256 million are covered by the German Mutual Atomic Energy Reinsurance Pool. Claims in excess of EUR 256 million up to a maximum of EUR 2,500 million are covered by a joint liability insurance agreement (Solidarvereinbarung) between the German nuclear power plant operators. The Vattenfall Group's share of this joint liability insurance agreement comprises, as of 1 January 2007, EUR 170 million (170) per claim and entails an obligation to keep available liquid assets corresponding to twice this amount, that is, EUR 340 million (340).

Vattenfall AB and Vattenfall Europe AG have provided security for the energy trading conducted by the subsidiary Vattenfall Europe Trading GmbH, consisting of guarantees to a total value of EUR 967 million (852).

On the balance sheet date, guarantees totalling EUR 380 million (390), equal to SEK 3,436 million (3,679), were pledged and are included in the reported contingent liabilities.

According to Swedish law, nuclear power companies in Sweden shall pledge assets to the Swedish state (Swedish Nuclear Waste Fund) to guarantee that sufficient funds exist to cover the future expenses of nuclear waste management. The assets are pledged as guarantee commitments issued by the owners of the nuclear power companies. The assets shall in part cover the fees in case a particular reactor is operated for less than 25 years and in part cover any shortage in fund capital should the fund's assets prove insufficient to decommission and dismantle the reactors and manage the spent nuclear fuel.

As security for the subsidiaries Forsmarks Kraftgrupp AB and Ringhals AB, Vattenfall AB has made guarantee commitments for a combined value of SEK 5,643 million (5,377) to cover the risk that the existing funds in the Swedish Nuclear Waste Fund should, over time, prove to be insufficient. Two types of guarantee commitments have been made. The one guarantee commitment is intended to cover the requisite need for fees that has been decided on for the fees that have not yet been paid in during the so-called earnings period (25 years of operation). The other guarantee commitment pertains to future cost increases stemming from unforeseen events. Both amounts are determined from a probability-based risk analysis, where the former amount has been determined as such that there is a 50% probability that it, together with currently funded amounts (median value), will provide full cost coverage. The latter amount consists in principle of the supplement that would be required if the corresponding probability was 90%.

Note 43 Commitments under consortium agreements

Power plants are often built on a joint venture basis. Under the consortium agreements, each owner is entitled to electricity in proportion to its share of ownership, and each owner is liable, regardless of output, for an equivalent proportion of all the joint venture's costs.

Vattenfall's investments in heating companies and other businesses often entail a liability for costs in proportion to its share of ownership.

Vattenfall bears full financial responsibility for SwePol Link up to July 2020.

Note 44 Average number of employees and personnel costs

Average number employees	2006			2005		
	Men	Women	Total	Men	Women	Total
Sweden	6,588	1,970	8,558	6,459	1,891	8,350
Denmark ¹	271	48	319	5	–	5
Finland	352	202	554	341	205	546
Germany	15,269	4,667	19,936	15,532	4,667	20,199
Poland	2,169	682	2,851	2,297	734	3,031
Other countries	74	16	90	80	20	100
Total	24,723	7,585	32,308	24,714	7,517	32,231

Personnel costs	2006	2005
Salaries and other remuneration	13,799	13,371
Social security costs (of which pension costs) ²	5,450 (2,136)	5,293 (2,115)
Total	19,249	18,664

1) Vattenfall Denmark is a new Group company as of 1 July 2006.

2) SEK 77 million (80) of the pension costs are attributable to the Group, comprising presidents and vice presidents and former presidents and vice presidents.

The Group's outstanding pension obligations attributable to these officers total SEK 463 million (423).

Salaries and other compensation	2006			2005		
	Board members and senior executives ¹	Other employees	Total	Board members and senior executives ¹	Other employees	Total
Sweden	48	3,633	3,681	66	3,397	3,463
Denmark	–	162	162	–	4	4
Finland	5	223	228	4	213	217
Germany	89	9,132	9,221	81	9,135	9,216
Poland	21	478	499	19	443	462
Other countries	–	8	8	–	9	9
Total²	163	13,636	13,799	170	13,201	13,371

Social security costs	2006	2006
Sweden	1,975	1,838
Denmark	15	1
Finland	58	52
Germany	3,297	3,304
Poland	102	96
Other countries	3	2
Total	5,450	5,293

1) Board members and senior executives also include deputy board members and vice presidents and former board members, deputy board members, presidents and vice presidents.

2) Total salaries and other compensation to board members and presidents include bonuses of SEK 32 million (41).

Benefits to board members and senior executives of Vattenfall AB

SEK thousands	Directors' fees and base salary 2006 including vacation pay	Company car and other benefits 2006	Pension costs 2006	Estimated variable compensation for 2006 to be paid 2007
Dag Klackenborg, Chairman of the Board	431	–	–	–
Maarit Aarni, Director	215	–	–	–
Carl-Gustaf Angelin, Director	43	–	–	–
Johnny Bernhardsson, Director	43	–	–	–
Christer Bådholm, Director	267	–	–	–
Ronny Ekwall, Director	43	–	–	–
Greta Fossum, Director (from 27 April 2006)	145	–	–	–
Peter Lindell, Director	267	–	–	–
Hans-Olov Olsson, Director	215	–	–	–
Lone Fønss Schrøder, Director	267	–	–	–
Anders Sundström, Director	215	–	–	–
Lars Carlsson, Deputy director	43	–	–	–
Stig Lindberg, Deputy director	43	–	–	–
Per-Ove Lööf, Deputy director	56	–	–	–
Lars G. Josefsson, President and CEO	7,802	109	5,731	–
Matts Ekman, First Senior Executive Vice President and CFO	3,862	75	2,075	636
Jan Erik Back (from 14 December 2006), First Senior Executive Vice President and CFO from 1 January 2007	154	–	–	–
Hans von Uthmann, Senior Executive Vice President	4,207	68	670	696
Klaus Rauscher, Senior Executive Vice President	8,104	49	5,354	3,473
Tuomo Hatakka, Senior Executive Vice President	2,329	109	699	775
Alf Lindfors, Executive Vice President (until 31 July 2006)	2,746	53	3,868	–
Mats Fagerlund, Executive Vice President	4,075	1,263	1,958	4,075
Lennart Billfalk, Executive Vice President	2,765	63	602	452
Ann-Charlotte Dahlström, Senior Vice President Personnel	2,779	78	2,029	456
Knut Leman, Senior Vice President Communications	2,340	94	2,044	384
Total	43,456	1,961	25,030	10,947

Board of Directors

In 2006, the Chairman of the Board received a fee of SEK 431 thousand (413) while other directors received combined fees of SEK 1,693 thousand (1,576) (breakdown shown in the table above).

The four directors serving on the Board's Audit Committee also received fees as follows: SEK 52 thousand (50) each for those not employed by Vattenfall and SEK 13 thousand (13) for the employee representative serving on this assignment in 2006. These amounts are included in the table above under the heading Directors' fees.

President and Chief Executive Officer

In 2006, Lars G. Josefsson, who is President and Chief Executive Officer of Vattenfall AB, received a salary and other remuneration, including the value of a company car, amounting to SEK 7,911 thousand (7,313). As of 2005, the CEO no longer receives any variable salary.

Lars G. Josefsson, who was born in 1950, is entitled to retire at the age of 60. A retirement pension of 65% of his salary upon retirement will be paid up to the age of 65. After this, retirement benefits will be paid corresponding to the applicable ITP benefit plan plus 32.5% of the portion of his salary in excess of 30 times the Base Amount (the Base Amount is a standard amount used for Swedish social security purposes). The latter retirement benefit has a time limit and is payable up to the age of 80. After the age of 76, it decreases by one fifth for each subsequent year and ceases completely at the age of 80. The pension

obligation is covered by premiums paid to an insurance company on a regular basis. The benefits are vested, i.e., they are not conditional on future employment. In the event Vattenfall serves notice, the CEO is entitled to severance pay corresponding to a maximum of 24 months' salary. However, severance pay may only be paid until the contractual retirement age. The amount of the severance pay will be calculated on the basis of his base salary at the time notice was served. In the event of new employment or income from another source, the severance pay will be reduced by an amount corresponding to the new income or other benefits received during the period in question. Severance pay is paid monthly.

Other senior executives

For other senior executives who have been part of Executive Group Management, a total of 10 individuals (10), the total sum of salaries and other compensation, including the value of company cars, was SEK 35,213 thousand (30,162).

The First Senior Executive Vice President, Matts Ekman, was entitled to a defined contribution pension solution with a retirement age of 60.

Starting in 2006, Dr Klaus Rauscher is entitled to pension benefits corresponding to 3.34% of his base salary, which is earned on a yearly basis.

Tuomo Hatakka is entitled to a defined contribution pension solution.

For other members of Executive Group Management, the retirement

Note 44 continued

age varies between 60 and, for those employed after 1 October 2003, 62. For those with the opportunity to retire at 60, between the ages of 60 and 65 years, 70% of the base salary is paid. Variable salary is not pensionable for pension benefits payable between the ages of 60 and 65. The ITP plan applies from the age of 65, together with a supplementary pension (a so-called extension). The extension consists of 32.5% of pensionable salary in excess of 20 times the Base Amount. Pensionable salary consists of the executives' salary and annual variable salary, in accordance with ITP. Occupational pension from the age 65 is between 44% and 49% of base salary.

In cases where the pension applies from the age 62 (two individuals), ITP applies with an extension equivalent to 32.5% of the part of salary in excess of 30 times the Base Amount. In addition, the average of the past five years' fixed salaries is pensionable, while variable salary is not pensionable. The pension from age 62 is approximately 40% of base salary.

A defined contribution solution applies in the other case. All pension benefits are vested, i.e., they are not conditional on future employment. For these other members of Executive Group Management, premiums were paid to Alecta for ITP-K in amounts varying from SEK 150 thousand to SEK 190 thousand. The remainder of the pension costs, the major part, is an actuarially calculated cost consisting of the ITP liability and the annual change in the capital value of the portions over and above ITP. This is posted as a liability and is secured through Vattenfall's Pension Foundation.

In two cases, alternative ITP applies (a so-called high-earner solution), whereby premiums are paid instead of the equivalent amount being posted as a liability. The extension over and above ITP, as described above, is also applied.

For these executives, if the Company serves notice, they are entitled to their salary during the contractual notice period (6 months), plus severance pay equivalent to 18 months' salary, which is paid monthly with a deduction for the amount corresponding to new income during the period in question. Both Dr Klaus Rauscher and Tuomo Hatakka, however, have fixed-term employment contracts.

Drafting and decision processes

In 2006 the Board established a compensation committee for preparation of ongoing matters regarding the compensation of senior executives. The committee handles matters pertaining to annual salary reviews and other terms of employment for the CEO. In addition, the committee drafts principles regarding the salary and remuneration of the members of the Executive Group Management. The committee reports on its work to the Board, whereby the committee chair, who is the Chairman of the Board, informs the Board about the committee's decisions. However, the Board as a whole must decide on matters concerning the CEO's employment and decide on the CEO's terms of employment. (See also page 54.)

Incentive programme

In light of the Swedish government's guidelines on executive compensation and incentive programmes, the Board of Vattenfall AB has adopted a programme which as of 2005 applies in the Swedish part of operations and to employees in Sweden.

In line with the Swedish government's guidelines, the Group CEO no longer receives any variable salary. Regarding other executives and employees, variable salary may not exceed the equivalent of two months' salary per year, or 16.7% of the normal base salary. Also, for certain executives, the normal base salary can be reduced by 16.7%, depending on outcome. The maximum level for most employees averages about SEK 17 thousand per year.

As previously, the basis of the incentive programmes continues to be the Group's long-term value creation¹. The Group target is uniform for all employees. Further, the result of each unit and individual is measured.

In other countries the same Group value creation target is used in agreements on variable salary for senior executives and other concerned employees.

1) Value creation = the positive change in operating profit less the required return on average net assets, where the required return is 11%.

Note 45 Gender distribution among senior executives

	Women, %		Men, %	
	2006	2005	2006	2005
Gender distribution among Company directors	10	10	90	90
Gender distribution among other senior executives	13	11	87	89

Note 46 Leasing

Leasing expenses

Equipment leased by the Group through finance leases and reported as property, plant and equipment are reported as follows:

	2006	2005
Machinery/equipment		
Cost	157	256
Accumulated depreciation according to plan	-38	-61
Impairment losses	-	-37
Residual value according to plan	119	158

Future payment commitments, as of 31 December 2006, for leasing contracts and rental contracts are broken down as follows:

	Finance leases, nominal	Finance leases, present value	Operating leases
2007	37	34	530
2008	27	25	459
2009	27	23	420
2010	27	21	391
2011	41	31	367
2012 and beyond	480	414	1,616
Total	639	548	3,783

The current year's leasing expenses for Group assets amounted to SEK 534 million (630).

Certain, major leasing undertakings are described further in Note 42 to the consolidated accounts, Contingent liabilities.

Leasing revenues

Certain Group companies own and operate power facilities on behalf of customers. Revenues from customers are broken 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 2006, cost of assets reported under Operating leasing amounted to SEK 2,047 million (2,049). Accumulated depreciation amounted to SEK 841 million (762) and accumulated impairment losses amounted to SEK 30 million (30).

Future payments for this type of facility are broken down as follows:

	Financial leasing	Operating leasing
2007	11	171
2008	11	161
2009	11	147
2010	10	123
2011	10	102
2012 and beyond	81	371
Less: Financial income	-45	-159
Total	89	916

Note 47 Auditors' fees, etc.

	2006	2005
Statutory audit		
Ernst & Young ¹	29	23
PricewaterhouseCoopers ²	11	10
BDO ²	8	12
Swedish National Audit Office	1	1
Other	1	1
Total	50	47
Other fees		
Ernst & Young ³	19	15
PricewaterhouseCoopers ⁴	10	13
BDO (Germany)	9	5
Other	2	–
Total	40	33

1) In addition to the Parent Company's auditing costs of SEK 8 million (7), these costs are attributable to audits of Swedish, Danish, Finnish, German and Polish companies.

2) These amounts are primarily attributable to audits in German companies.

3) SEK 11 million (8) of the Group's auditing cost is attributable to operations in Germany and Poland.

4) SEK 8 million (11) of the Group's auditing cost is attributable to operations in Germany.

Note 48 Related party disclosures

Vattenfall AB is wholly owned by the Swedish state. The Vattenfall Group's products and services are offered to the Swedish state, Swedish state authorities and Swedish state companies in competition with other suppliers and under generally accepted commercial terms. In a similar manner, Vattenfall AB and its Group companies purchase products and services from Swedish state authorities and companies at market prices and otherwise under generally accepted commercial terms. No significant share of the Vattenfall Group's net sales, purchases or profits is attributable to the Swedish state or any of its authorities and companies.

Information on transactions with key persons in executive positions in the Company is provided in Note 44 to the consolidated accounts, Average number of employees and personnel costs.

Disclosures on transactions with associated companies in 2006 and associated receivables and liabilities as per 31 December 2006 are described below.

SwePol Link AB

SwePol Link AB handles the electricity cable that links together the Nordic and Polish electricity systems in the aim of achieving higher delivery reliability and more effective utilisation of generation plants. Vattenfall's sales revenue from the company amounted to SEK 2 million, while interest income totalled SEK 30 million. Purchases from the company amounted to SEK 130 million. Trade receivables as per 31 December amounted to SEK 386 million, while financial receivables totalled SEK 1,350 million. Trade liabilities to the company amounted to SEK 15 million.

PiteEnergi AB

PiteEnergi sells electricity, heat, broadband internet access and other services in the Piteå area. Electricity is generated by the company's own hydro power plants. Vattenfall's sales revenue from the company amounted to SEK 2 million.

Plusenergi AB

The main product consists of electricity sales to both private and corporate customers. The company focuses on the market in Sweden's Västra Götaland region. Vattenfall's sales revenue from the company amounted to SEK 39 million. Trade receivables as per 31 December totalled SEK 8 million, while trade liabilities to the company amounted to SEK 2 million.

Luleå Energi AB

Luleå Energi's business areas include electricity trading operations, generation and distribution of district heating and optical network activities. Vattenfall's sales revenue from the company amounted to SEK 257 million, while purchases from the company amounted to SEK 1 million. Trade receivables as per 31 December amounted to SEK 13 million, while trade liabilities to the company amounted to SEK 2 million.

Gulsele AB

Gulsele sells electricity generated by its own hydro power plants. Vattenfall received SEK 2 million in sales revenue from the company and interest income of SEK 2 million.

Kernkraftwerk Brokdorf GmbH & Co. oHG

This is a nuclear power plant from which Vattenfall purchases electricity. Purchases amounted to SEK 496 million. Sales revenue from the company amounted to SEK 1 million. Vattenfall paid SEK 33 million in interest to the company. Trade liabilities and loan liabilities as per 31 December amounted to SEK 118 million and SEK 3,200 million, respectively.

Kernkraftwerk Krümmel GmbH & Co. oHG

This is a nuclear power plant from which Vattenfall purchases electricity. Purchases amounted to SEK 1,183 million. Sales revenue from the company amounted to SEK 363 million. Vattenfall paid SEK 78 million in interest to the company. Trade receivables amounted to SEK 25 million as per 31 December. Trade liabilities and loan liabilities as per 31 December amounted to SEK 280 million and SEK 5,435 million, respectively.

Kernkraftwerk Stade GmbH & Co. oHG

This is a nuclear power plant from which Vattenfall purchases electricity. Purchases amounted to SEK 240 million. Vattenfall paid SEK 29 million in interest to the company. Trade receivables amounted to SEK 27 million as per 31 December. Trade liabilities and loan liabilities as per 31 December amounted to SEK 155 million and SEK 2,316 million, respectively.

GASAG Berliner Gaswerke AG

GASAG Berliner Gaswerke sells, distributes and stores natural gas in the Berlin area. Vattenfall received SEK 81 million in sales revenue from the company, and purchases from the company totalled SEK 2,805 million. Trade receivables amounted to SEK 5 million, while trade liabilities amounted to SEK 439 million.

ENSO Strom AG

ENSO Strom generates and distributes electricity and heat. The company also provides services in gas, water, telecommunications and waste collection. Vattenfall received SEK 1,226 million in sales revenue from the company, while purchases amounted to SEK 438 million. Trade receivables and liabilities as per 31 December amounted to SEK 79 million and SEK 9 million, respectively.

Städtische Werke AG

This company provides electricity, heat, gas, water and waste collection services. Vattenfall's sales revenue from the company amounted to SEK 20 million, while purchases from the company amounted to SEK 18 million.

Other associated companies

These companies are primarily active in design, consulting and purchasing in the energy sector. Vattenfall's combined sales revenue from these companies amounted to SEK 21 million, while purchases also amounted to SEK 21 million. Liabilities to these companies amounted to SEK 3 million.

Note 49 Important estimations and assessments

The various provisions made in Vattenfall's consolidated balance sheet are reviewed on an annual basis. The review of 2006 has led to changes in earlier assumptions about discount rates in the calculation of provisions for pensions in Germany. The discount rate was adjusted from 4.25% to 4.50% for pension plans in Germany. For provisions for pensions in Sweden, the discount rate is unchanged at 3.75% compared with a year ago.

The discount rate for other provisions than provisions for pensions is also unchanged compared with a year ago, at 5.0%

Note 50 Events after the balance sheet date

In the Company's opinion, no significant events have taken place after the balance sheet date up until the date of this report's publication that require disclosure under this heading.