

PROPOSED DISTRIBUTION OF PROFITS

The Annual General Meeting has at its disposal profits totalling SEK 27,844,113,050.

The Board of Directors and President propose that the profits be distributed as follows:

To be distributed to the shareholders, SEK	7,500,000,000
To be carried forward, SEK	20,344,113,050
	<u>27,844,113,050</u>

The proposed distribution is equivalent to a dividend of SEK 56.95 per share.

Statement by the Board of Directors pursuant to the Swedish Companies Act, Chapter 18, Section 4:

Based on the Company's and Group's strong financial position, favourable earnings and strong cash position, the Board of Directors is of the opinion that the proposed distribution of profits will not lead to any ma-

terial limitation of the Company's or Group's ability to make any necessary investments or to meet their obligations in the short and long term.

Nor does the proposed dividend have any material impact on the Company's key ratios.

In view of the above, the Board finds the proposed distribution of profits, totalling SEK 7,500,000,000, to be carefully considered and justified. Further, the Board finds that proposed distribution of profits adheres to the principles of the adopted dividend policy (page 3).

The Board of Directors and President's affirmation upon signing the annual accounts for 2006

We affirm that the annual accounts, to the best of our knowledge, have been prepared in accordance with generally accepted accounting principles, that the information provided reflects the actual state of affairs, and that nothing of material importance has been omitted which could affect the view of the Company presented by the annual accounts.

Stockholm, 7 March 2007

Dag Klackenborg
Chairman of the Board

Maarit Aarni-Sirviö

Carl-Gustaf Angelin

Johnny Bernhardtsson

Christer Bådholm

Ronny Ekwall

Peter Lindell

Hans-Olov Olsson

Lone Fønss Schrøder

Anders Sundström

Greta Fossum

Lars G. Josefsson
President and Chief Executive Officer

AUDIT REPORT

To the Annual General Meeting of Vattenfall AB

Corporate identity number 556036-2138

We have audited the annual accounts, the consolidated accounts, the accounting records and the administration of the Board of Directors and the President of Vattenfall AB for the year 2006. The Board of Directors and the President are responsible for these accounts and the administration of the Company as well as for the application of the Annual Accounts Act when preparing the annual accounts and the application of international financial reporting standards (IFRSs) as adopted by the EU and the Annual Accounts Act when preparing the consolidated accounts. Our responsibility is to express an opinion on the annual accounts and the consolidated accounts comprising pages 60–110 and the administration based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in Sweden. Those standards require that we plan and perform the audit to obtain reasonable assurance that the annual accounts and the consolidated accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the accounts. An audit also includes assessing the accounting principles used and their application by the Board of Directors and the President and significant estimates made by the Board of Directors and the President when preparing the annual accounts and consolidated accounts as well as evaluating the overall presentation of information in the annual accounts and the consoli-

dated accounts. As a basis for our opinion concerning discharge from liability, we examined significant decisions, actions taken and circumstances of the Company in order to be able to determine the liability, if any, to the Company of any board member or the President. We also examined whether any board member or the President has, in any other way, acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association. We believe that our audit provides a reasonable basis for our opinion set out below.

The annual accounts have been prepared in accordance with the Annual Accounts Act and give a true and fair view of the Company's financial position and results of operations in accordance with generally accepted accounting principles in Sweden. The consolidated accounts have been prepared in accordance with the international financial reporting standards (IFRSs) as adopted by the EU and the Annual Accounts Act and give a true and fair view of the Group's financial position and results of operations. The statutory administration report is consistent with the other parts of the annual accounts and the consolidated accounts.

We recommend to the Annual General Meeting of shareholders that the income statements and balance sheets of the Parent Company and the Group be adopted, that the profit of the Parent Company be dealt with in accordance with the proposal in the administration report and that the members of the Board of Directors and the President be discharged from liability for the financial year.

Stockholm, 7 March 2007

Ernst & Young AB
Lars Träff
Auktoriserad revisor
(Authorised Public Accountant)

Per Redemo
Auktoriserad revisor
(Authorised Public Accountant)
appointed by the
Swedish National Audit Office

DEFINITIONS AND CALCULATIONS OF KEY RATIOS

Figures for the Group in 2006. Amounts in SEK million unless stated otherwise.

EBIT Earnings Before Interest and Tax.

EBITDA Earnings Before Interest, Tax, Depreciation and Amortisation.

FFO Funds From Operations.

Items affecting comparability Non-recurring capital gains and capital losses from shares and other non-current assets. For 2005, the compensation received from the Swedish state for the closure of Barsebäck 2 and relevant costs for the impairment losses of the assets are also reported as items affecting comparability.

Free cash flow Cash flow from operating activities less maintenance investments

Net assets Balance sheet total less noninterest-bearing liabilities, provisions, interest-bearing receivables, funds in the Swedish Nuclear Waste Fund, cash and cash equivalents, short-term investments.

Net debt Interest-bearing liabilities less long-term loans to minority owners in foreign subsidiaries, cash and cash equivalents and short-term investments.

Operating margin, %

$$100 \times \frac{\text{Operating profit (EBIT)}}{\text{Net sales}} = \frac{27,049}{145,815} = 18.6$$

Operating margin excl. items affecting comparability, %

$$100 \times \frac{\text{Operating margin excl. items affecting comparability}}{\text{Net sales}} = \frac{26,676}{145,815} = 18.3$$

Pre-tax profit margin, %

$$100 \times \frac{\text{Profit before tax}}{\text{Net sales}} = \frac{25,525}{145,815} = 17.5$$

Pre-tax profit margin excl. items affecting comparability, %

$$100 \times \frac{\text{Profit before tax excl. items affecting comparability}}{\text{Net sales}} = \frac{25,141}{145,815} = 17.2$$

Return on equity, %

$$100 \times \frac{\text{Profit for the period attributable to equity holders of the Parent Company}}{\text{Average equity for the period attributable to equity holders of the Parent Company excl. the Reserve for cash flow hedges}} = \frac{18,729}{97,951} = 19.1$$

Return on equity excl. items affecting comparability, %

$$100 \times \frac{\text{Profit for the period attributable to equity holders of the Parent Company excl. items affecting comparability}}{\text{Average equity for the period attributable to equity holders of the Parent Company excl. the Reserve for cash flow hedges}} = \frac{18,343}{97,951} = 18.7$$

Return on net assets, %

$$100 \times \frac{\text{Operating profit (EBIT) plus discounting effects attributable to provisions}}{\text{Weighted average of net assets for the period}} = \frac{25,037}{151,155} = 16.6$$

Return on net assets excl. items affecting comparability, %

$$100 \times \frac{\text{Operating profit (EBIT) excl. items affecting comparability plus discounting effects attributable to provisions}}{\text{Weighted average of net assets for the period}} = \frac{24,664}{151,155} = 16.3$$

Interest coverage ratio, times

$$\frac{\text{Operating profit (EBIT) + financial income excl. discounting effects attributable to provisions and returns from the Swedish Nuclear Waste Fund}}{\text{Financial expenses excl. discounting effects attributable to provisions}} = \frac{28,782}{3,351} = 8.6$$

Interest coverage ratio excl. items affecting comparability, times

$$\frac{\text{Operating profit (EBIT) excl. items affecting comparability + financial income excl. discounting effects attributable to provisions and returns from the Swedish Nuclear Waste Fund}}{\text{Financial expenses excl. discounting effects attributable to provisions}} = \frac{28,409}{3,351} = 8.5$$

FFO interest coverage ratio, times

$$\frac{\text{Funds from operations (FFO) + financial expenses excl. discounting effects attributable to provisions}}{\text{Financial expenses excl. discounting effects attributable to provisions}} = \frac{39,024}{3,351} = 11.6$$

FFO interest coverage ratio, net, times

$$\frac{\text{Funds from operations (FFO) + net financial items excl. discounting effects attributable to provisions and returns from the Swedish Nuclear Waste Fund}}{\text{Financial items excl. discounting effects attributable to provisions and returns from the Swedish Nuclear Waste Fund}} = \frac{37,291}{1,618} = 23.0$$

Cash flow interest coverage ratio after maintenance investments, times

$$\frac{\text{Cash flow from operating activities less maintenance investments + financial expenses excl. discounting effects attributable to provisions}}{\text{Financial expenses excl. discounting effects attributable to provisions}} = \frac{26,529}{3,351} = 7.9$$

Equity/assets ratio, %

$$100 \times \frac{\text{Equity}}{\text{Balance sheet total}} = \frac{107,674}{323,166} = 33.3$$

Net debt/equity ratio, times

$$\frac{\text{Net debt}}{\text{Equity}} = \frac{49,407}{107,674} = 0.46$$

Net debt/net debt plus equity, %

$$100 \times \frac{\text{Net debt}}{\text{Net debt + equity}} = \frac{49,407}{157,081} = 31.5$$

Interest-bearing liabilities/interest-bearing liabilities + equity, %

$$100 \times \frac{\text{Interest-bearing liabilities}}{\text{Interest-bearing liabilities + equity}} = \frac{71,575}{179,249} = 39.9$$

FFO/interest-bearing liabilities, %

$$100 \times \frac{\text{Funds from operations (FFO)}}{\text{Interest-bearing liabilities}} = \frac{35,673}{71,575} = 49.8$$

FFO/net debt, %

$$100 \times \frac{\text{Funds from operations (FFO)}}{\text{Net debt}} = \frac{35,673}{49,407} = 72.2$$

EBITDA/net financial items, times

$$\frac{\text{Operating profit before depreciation and amortisation (EBITDA)}}{\text{Financial items excl. discounting effects attributable to provisions and returns from the Swedish Nuclear Waste Fund}} = \frac{43,166}{1,618} = 26.7$$

EBITDA excl. items affecting comparability/net financial items, times

$$\frac{\text{Operating profit before depreciation and amortisation (EBITDA) excl. items affecting comparability}}{\text{Financial items excl. discounting effects attributable to provisions and returns from the Swedish Nuclear Waste Fund}} = \frac{42,793}{1,618} = 26.4$$