

POWER FOR RENEWAL

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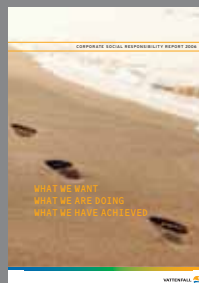
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Financial calendar 2008

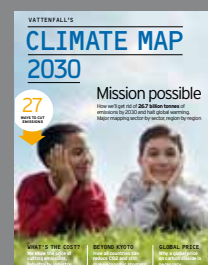
7 February	Year-end report
28 March	Annual Report 2007
29 April	Interim report January–March
29 April	Annual General Meeting
30 July	Interim report January–June
30 October	Interim report January–September

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Vattenfall's CSR report describes Vattenfall's operations from a sustainability perspective.



In this report, Vattenfall has mapped the global potential for reducing emissions of greenhouse gases.

Other publications

All reports can be ordered from Vattenfall AB,
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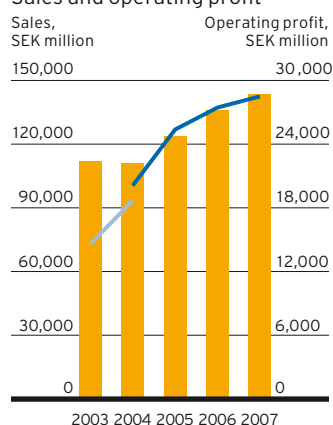
Further information about Vattenfall can be found on Vattenfall's websites

www.vattenfall.com (English)
www.vattenfall.se (Swedish)

VATTENFALL AT A GLANCE

Vattenfall is Europe's fifth largest generator of electricity and the largest producer of heat. Consolidated sales in 2007 amounted to SEK 143,639 million. Vattenfall's vision is to be a leading European energy company, and the main products are electricity and heat. Vattenfall operates in all parts of the electricity value chain: generation, transmission, distribution and sales. Vattenfall also generates, distributes and sells heat, and conducts energy trading and lignite mining. Operations today are conducted in Sweden, Denmark, Finland, Germany and Poland. The Group has slightly more than 32,000 employees, and the Parent Company, Vattenfall AB, is 100%-owned by the Swedish state.

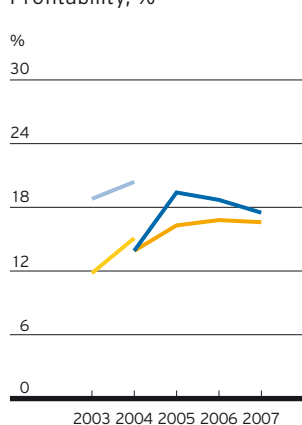
Sales and operating profit



■ Net sales
 — Operating profit¹ (Sw.GAAP)
 — Operating profit¹ (IFRS)

1) Excl. items affecting comparability.

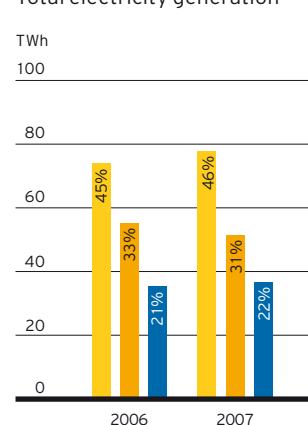
Profitability, %



— Return on equity¹ (Sw.GAAP)
 — Return on equity¹ (IFRS)
 — Return on net assets¹ (Sw.GAAP)
 — Return on net assets¹ (IFRS)

1) Excl. items affecting comparability.

Total electricity generation¹



■ Fossil-based power
 ■ Nuclear power
 ■ Hydro power

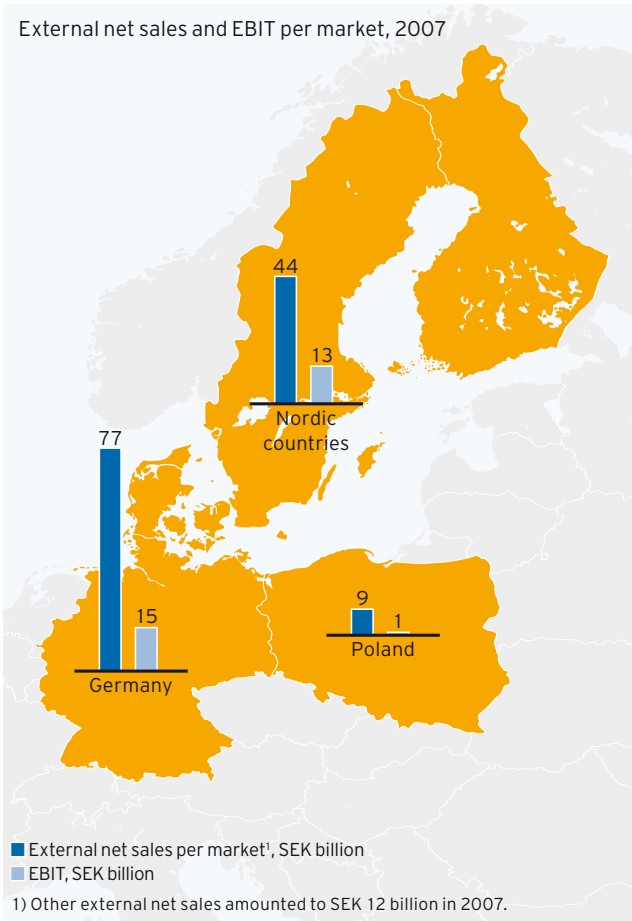
1) Wind power, biofuel and waste amount to 1.9 TWh for 2007 and 1.2 TWh for 2006 which corresponds to approximately 1% of Vattenfall's total electricity generation.

Key data

	2007	2006	Change, %	2007 (EUR) ¹	2006 (EUR) ¹
Net sales, SEK million	143,639	135,802	5.8	15,168	14,340
EBITDA, SEK million	45,821	43,938	4.3	4,839	4,640
Operating profit, SEK million	28,583	27,821	2.7	3,018	2,938
Operating profit excl. items affecting comparability, SEK million	28,497	27,448	3.8	3,009	2,898
Profit before tax, SEK million	23,933	25,525	-6.2	2,527	2,695
Profit for the year, SEK million	20,686	19,858	4.2	2,184	2,097
Earnings per share, SEK	150.11	142.21	5.6	15.85	15.02
Return on equity, %	17.6	19.1			
Return on net assets, %	16.6	17.1			
Total assets, SEK million	338,236	323,166	4.7	35,717	34,125
Equity/total assets, %	36.7	33.3			
Funds from operations (FFO), SEK million	34,049	35,673	-4.6	3,595	3,767
Free cash flow, SEK million	19,650	23,178	-15.2	2,075	2,448
Investments, SEK million	18,964	17,220	10.1	2,003	1,818
Electricity generation, TWh	167.6	165.4	1.3		
Heat generation, TWh	36.2	35.2	2.8		
Average number employees, full time equivalents	32,396	32,308	0.3		

1) Exchange rate SEK 9.47=EUR 1.

External net sales and EBIT per market, 2007



Vattenfall's markets

Nordic countries

Vattenfall generates slightly more than 20% of the electricity that is used in the Nordic countries. Electricity generation consists primarily of nuclear and hydro power. Electricity is sold to slightly more than 1 million customers in the Nordic countries. Vattenfall is also a major producer of heat, mainly based on biofuels, and sells district heating. The Distribution business unit owns and operates electricity networks and distributes electricity to some 1,3 million network customers. Vattenfall also conducts consulting and contracting activities, mainly in the energy sector.

Germany

Vattenfall generates nearly 13% of the electricity that is used in Germany and is thereby the country's third largest electricity generator. Approximately 92% of generation is based on fossil fuels, mainly from Vattenfall's own lignite mines. Vattenfall's coal-fired plants are among the most modern in the world. Vattenfall also produces heat and has substantial district heating sales, primarily in Berlin and Hamburg. In electricity networks, Vattenfall owns and operates high-voltage as well as local networks. Vattenfall has a total of approximately 3.3 million network customers and approximately 2.6 million electricity customers in Germany.

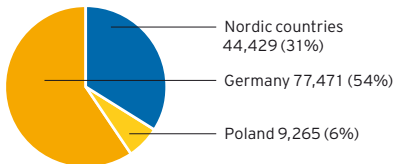
Poland

Heat production and sales make up the majority of operations, and Vattenfall has a market share of approximately 27%. Electricity is also generated on a small scale. Both heat and electricity are based primarily on coal. The Distribution business unit owns and operates electricity networks and distributes electricity to 1.1 million network customers, mainly in the south-west part of the country. Vattenfall has approximately 1 million electricity customers in Poland.

Joint-Group operations

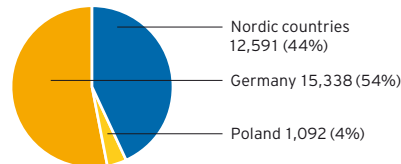
Vattenfall Trading Services, Vattenfall Treasury, Vattenfall Insurance, Vattenfall Research and Development and Vattenfall IT Infrastructure services are central support functions that manage the Group's funding, risks, provide market access, work with research and development and take responsibility for the Group's IT infrastructure.

External net sales¹ per market, SEK million



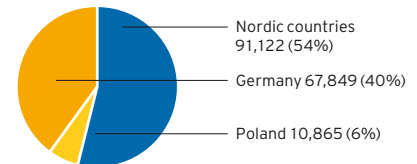
1) Other external net sales amounted to SEK 12,474 million. The segment "Other" includes Energy Trading activities, Treasury operations and Other Group functions.

EBIT², SEK million



2) The segment "Other" posted an operating result of SEK -438 million.

Net assets per market, SEK million



Energy literally turns the wheels of society. Every minute, every hour, every day – year after year – we in the energy industry create the conditions that enable our high-tech society to work.

In other words, our role in modern society can hardly be overexaggerated. But along with that central position in society comes **major and justifiable**

demands on us as energy providers. We are expected to deliver energy with a very high degree of reliability and at reasonable prices. At the same time, demands are put on us to generate energy safely and with the smallest possible impact on the surrounding environment – both nearby and globally. In late 2007 a big step was taken in this direction when the new Lillgrund wind farm in the Oresund Strait began generating electricity. This explains our choice of Lillgrund, with the Oresund bridge in the background, as the cover photo for this year's annual report.



The demands on us as an energy company can be summarised with the words **Safety and Trust. These are the watchwords in everything we do.** Energy generation that is safe in all respects instils trust among our customers and society at large. Trust, in turn, is our most precious asset and gives us freedom to act in the many major challenges we face. In order to be even better at accomplishing our ultimate mission – to contribute to development of the society we work in – we at Vattenfall have formulated **five strategic ambitions that define our task: Number One for the Customer, Number One for the Environment, Profitable Growth, Benchmark for the Industry, and Employer of Choice.** These five ambitions are not isolated from each other – they are all tightly interwoven and in most cases interdependent. To successfully live up to one ambition, we must also be successful with the other four. And achieving our vision – of being a leading European energy company – requires that we are successful in all five ambitions. On pages 8–19 we describe these five strategic ambitions in more detail, their interconnection, and how they enable each other.

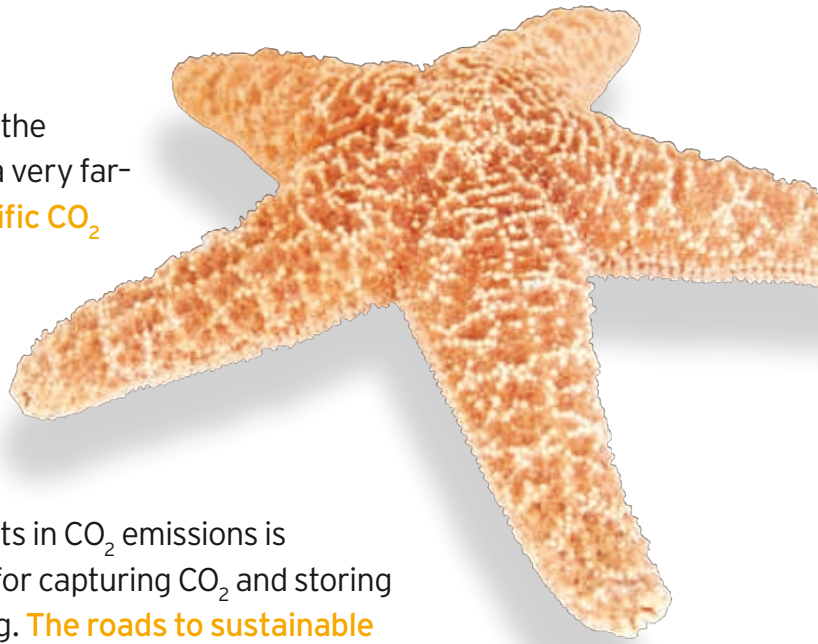
As most everyone knows, the world is facing a challenge of such magnitude that I do not hesitate to call it one of the largest in the history of humankind. I am referring, of course, to the threat to our climate resulting from global warming. Energy generation is not the only activity that contributes to the major emissions of greenhouse gases and the resulting warming of Earth's atmosphere. Nevertheless, generation of electricity and heat does result in substantial CO₂ emissions, which is why we at **Vattenfall are working intensively to reduce our emissions and**

thereby contribute to slowing – and over time, stopping – climate change. Vattenfall was one of the first energy companies in the world to formulate a very far-reaching climate target: by 2030, to cut our specific CO₂ emissions into the atmosphere in half compared with 1990 levels. Today we have made good progress on our way toward this goal, but the greatest and most difficult job still remains.

We are striving to achieve sustainable energy generation in which the share of energy that results in CO₂ emissions is sharply reduced and where we also use methods for capturing CO₂ and storing it in a way that does not accelerate global warming. **The roads to sustainable energy generation are many**, and therefore Vattenfall is active in many different areas. For example, we are conducting very ambitious investments in expansion of wind power, and I am happy to note that our generation of electricity from wind rose 117% in 2007, to 1.3 TWh. Granted, wind power still accounts for only a small percentage of our total electricity generation, but the positive trend is clear. As I mentioned above, the Lillgrund wind farm has begun generating electricity, and in connection with that we unveiled plans to substantially expand our wind power generation in collaboration with the forest company Sveaskog. The goal for this joint venture is to build 550 new wind power turbines that can together generate 4 TWh, corresponding to the electricity needs of 800,000 homes. At the same time, we are working on efficiency improvement and on finding other ways to boost the energy output of our existing hydro power plants. We are also open for a discussion on how nuclear power can be revived and make an additional contribution to energy generation without CO₂ emissions.

Of course, our most exciting and promising investment is on developing coal-based – yet extremely CO₂-lean – energy generation. Coal is undisputedly the dominant source of energy in the world today and will continue to be so for the foreseeable future. This is why the development work that is currently being conducted at Vattenfall's Schwarze Pumpe pilot plant in Germany – where the carbon dioxide that is formed upon combustion of coal will be converted to liquid form and stored in bedrock – is so urgent.

Together, Vattenfall's various initiatives show that the Company's vision of sustainable energy generation is not just "hot air", but a realistic and achievable path. At the same time, we must make it clear that any changeover will not take place overnight. Right now we are in a transitional phase, entailing the gradual phase-out of generation methods with large CO₂ emissions, in favour of more efficient and environmentally friendly alternatives. This also means that some of the generation facilities that are now coming on stream do not fully live up to the long-term demands we make, but they are nevertheless considerable improvements compared with previous



conditions. For example, the new combined heat and power plant in Moorburg, Germany, will result in a reduction in CO₂ emissions by 2.3 million tonnes/year compared with the older facilities it replaces. In more concrete terms, this corresponds to the annual emissions of a million cars!

To be sure, slowing a continued rise in the average temperature is a gigantic – and urgent – task. At the same time it is a challenge that society, our customers, and not least, our employees demand that we overcome. Handling this task successfully, and at the same time ensuring reliable supply of energy at reasonable prices, requires major investments by Vattenfall. **And major investments, in turn, require continued good profitability.**

It is therefore gratifying to note that 2007 was a successful year for Vattenfall also in terms of earnings. Profit after tax rose 4.2% to SEK 20,686 million, while sales grew 5.8% to SEK 143,639 million. Operating profit improved by 2.7%, to SEK 28,583 million. The earnings improvement is largely attributable to electricity generation in Germany and is explained by high availability in our coal plants and better prices achieved on the European Energy Exchange in Germany. In the Nordic countries, hedging in the forward market helped offset the effects of falling electricity prices; despite this, operating profit fell by 5.2%. Costs for the major storm “Per” at the start of the year, restructuring costs and impairment losses for a CHP plant in Finland pushed earnings down in the Nordic countries. Earnings in Poland improved slightly, but mainly because of currency effects.

Vattenfall has managed to report very strong earnings for a succession of years. We are now at the threshold of a period in which we can foresee rising competition due to expanded generation capacity, at the same time that we predict more volatile prices. **To be able to bear the investments that are expected of us will require maintained profitability even during years when prices are under pressure.** Accordingly, during the year we initiated work on improving the efficiency of our operations and raising productivity. In strictly monetary terms, the goal of this efficiency-improvement work is to lower the total cost base within the Group by SEK 5 billion compared with 2006. Joint-Group processes in IT and purchasing are a couple of areas in which efficiency gains can be achieved. An example in this direction is that starting on 1 January 2008, all purchases of hard coal are now centralised in Vattenfall Trading Services in Copenhagen. But our focus on Operational Excellence is not only about boosting productivity – it is equally as much about creating conditions for high quality in all aspects of our work. One of our strategic ambitions is to be a Benchmark for the Industry – that is, to match and outperform our competitors in all essential dimensions. **This, in turn, is a prerequisite for Vattenfall to be able to seriously take part in the structural transformation of the European energy market and achieve our vision – to be a leading European energy company.**

Satisfied customers are one of these important dimensions. We are continuing and intensifying our work on increasing customer satisfaction, and in 2007 we gained clear proof on how important

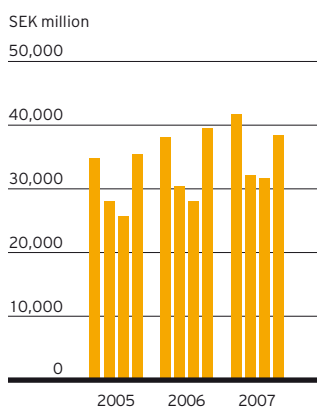
satisfied customers are for our ability to create value. Since a few years ago Vattenfall has been successfully improving its customer relations in Sweden. We have strengthened our customer service and simplified our billing and other information that we provide to our customers. In summer 2006 we introduced "Trygghetsavtalet", a three-year fixed-price electricity contract with an accompanying renewal right. This shelters customers against rising electricity prices for three years at the same time that it gives them the right to sign a new three-year agreement at a lower price if electricity prices decrease. **These initiatives in Sweden have been rewarded with a growing customer base and more satisfied customers.** They have also increased our freedom to act.

Conversely, in Germany we lost many customers during the year and suffered a bruised reputation – something that has curtailed our scope to manoeuvre. There were two main causes for the loss of customers in Germany: diminished confidence in Vattenfall due to poor information following the outages at the Brunsbüttel and Krümmel nuclear power plants, and the rate increases that were announced at mid-year. Both of the nuclear power plants were scrammed, independent of each other, on 28 June. Although these events, the one a short circuit and the other a fire in a transformer, did not pose any risk to people or the environment, Vattenfall was harshly criticised for providing inadequate information to the public and too late. After these events, we launched an investigation and took immediate action both to strengthen safety work and to ensure that our communication activities in the future meet better standards. Several organisational changes have also been made.

Nuclear safety continued to be in focus also in Sweden in 2007. A comprehensive review of safety issues following the incident at the Forsmark nuclear power plant in July 2006 has resulted in a number of changes. New management has been installed at Forsmark, at the same time that

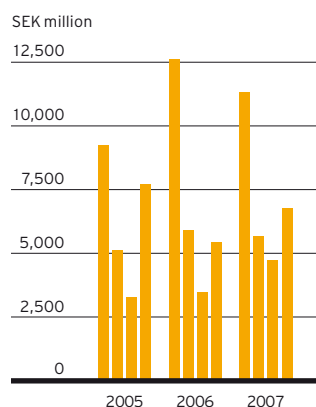
Sales rose 5.8% to SEK 143,639 million (135,802)

Net sales, quarterly



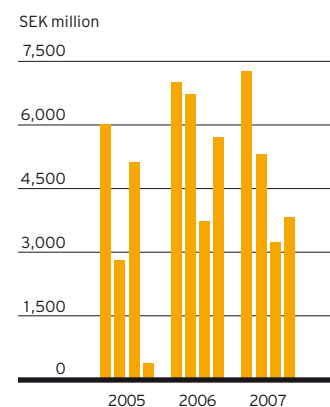
Operating profit excluding items affecting comparability rose 3.8% to SEK 28,497 million (27,448)

Operating profit, quarterly



Free cash flow totalled SEK 19,650 million (23,178)

Free cash flow¹, quarterly



¹ Cash flow from operating activities less maintenance investments.

Vattenfall has strengthened its representation on Forsmark's board. Vattenfall's board established a Safety Committee, and in January 2008 a Chief Nuclear Officer took office. **It is my hope that these strong measures will make it clear that Vattenfall always puts safety first and that the nuclear power plants in which Vattenfall is an owner will lead developments in the area of safety.**

The discussions on nuclear safety also underscore my opening words about Safety and Trust. Where nuclear power is concerned, rigorous safety is an absolute prerequisite for winning the public's trust.

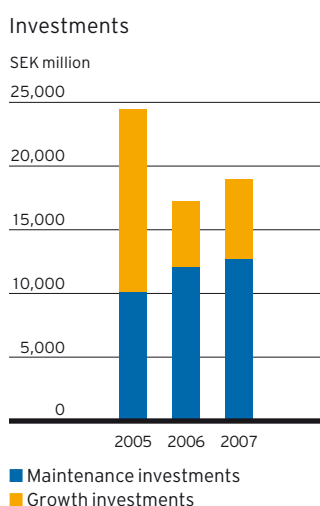
Trust must also be the foundation of our aspirations to get our customers to perceive us as being a progressive, empathetic, easily accessible and reliable partner. This is why we must self-critically ask ourselves in everything we do: Will this help make our customers – and society at large – associate us more with these qualities?

If we succeed in our aspirations to build truly strong customer relations, these along with our clear stance on the climate issue will be a significant competitive advantage for Vattenfall – an advantage that enhances our opportunities to meet the major demands placed on us as we prepare for the future and pursue our vision of being a leading European energy company.

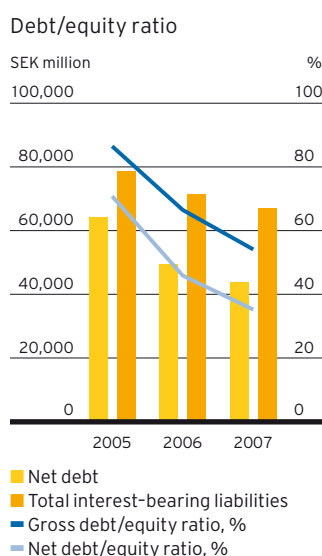


Lars G. Josefsson
President and CEO

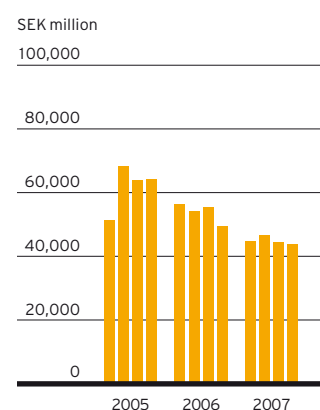
Total investments amounted to SEK 18,964 million



Net debt decreased by SEK 5,667 million to SEK 43,740 million



Net debt, quarterly



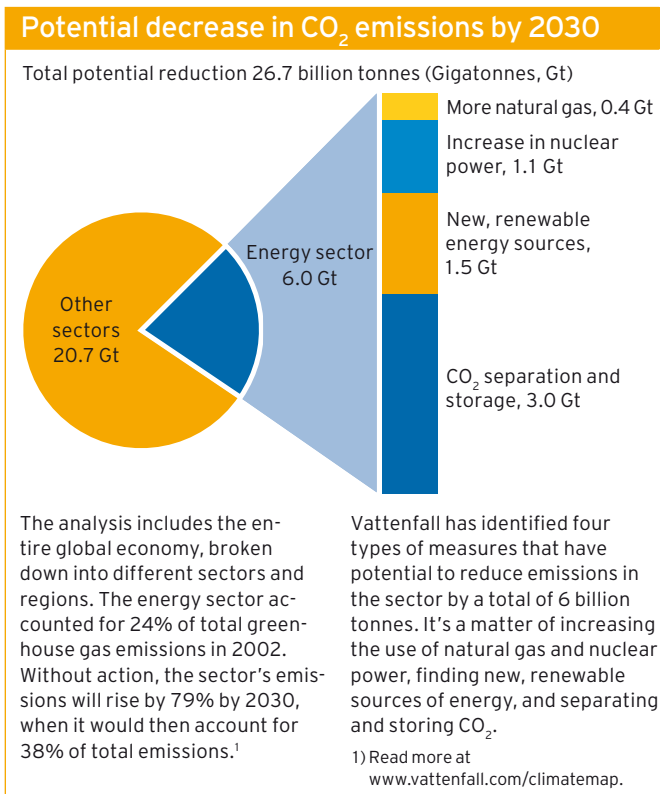
SUSTAINABLE DEVELOPMENT – A CHALLENGE FOR THE FUTURE

Combating the global climate threat will require a profound shift in the world's energy systems in order to bring about a decrease in greenhouse gas emissions. Vattenfall has mapped opportunities to reduce the world's total emissions by 26.7 billion tonnes by 2030. The analysis presented in our Climate Map¹ shows that this is fully possible.

Climate change is one of the greatest challenges of our time. Widely accepted research shows that if the average temperature at the Earth's surface rises more than 2°C compared with the preindustrial level, this would very likely cause catastrophic and unacceptable effects in the form of drought, epidemics and starvation. To date the average temperature has already risen by 0.76°C, and the most reasonable explanation is greenhouse gas emissions. Unless dramatic measures are taken in global consensus, greenhouse gas emissions will increase from 40 billion tonnes of carbon dioxide equivalents (CO₂e) in 2002 to 58 billion tonnes in 2030².

In co-operation with McKinsey & Company, Vattenfall has mapped measures around the world that can potentially be done to reduce CO₂ emissions by 2030. According to this study, annual emissions will need to be limited to 31 billion tonnes of CO₂e by 2030, and the analysis shows that the measures needed to curb climate change are possible. More than two-thirds of the reduction can, according to the analysis, be achieved using existing technology, and it appears that a fourth of the measures can be achieved at a negligible or in fact at a negative cost. The gap between potential and reality is wide, however, which is why strong measures are needed.

Curbing climate change will require a combination of technology, economics and politics. Huge investments will be required if we are to achieve our emission targets and at the same time guarantee a secure supply of energy to the world's growing population. In the long term this will result in global energy systems that are increasingly renewable and CO₂-efficient, but it also means higher energy prices. At the same time, consumers are demanding lower electricity prices, which presents a challenge to the energy sector.



1) Read more at www.vattenfall.com/climatemap.

2) Based on material from the International Energy Agency (IEA), the US Environmental Protection Agency (EPA) and the UN's Intergovernmental Panel on Climate Change (IPCC).

THREE MAIN AREAS IN VATTENFALL'S CLIMATE WORK

Vattenfall is one of the largest producers of electricity and heat in Europe and accounts for substantial CO₂ emissions. We are working actively on reducing carbon dioxide emissions from our own operations, and during the year we set the target of cutting our CO₂ emissions in half. We are also helping our customers use energy more efficiently. On top of this, we are strongly engaged in international climate work: in addition to drawing up our Climate Map, we have also launched a corporate initiative (3C) aimed at gaining global support surrounding this cause.



Reduce CO₂ emissions

A central part of Vattenfall's climate work entails steadily reducing CO₂ emissions from our own facilities. Vattenfall is prioritising investments in CO₂-efficient generation and energy efficiency improvements. Our goal is to reduce emissions from our own plants by 3 million tonnes by 2010. By 2030 our goal is to halve our emissions compared with 1990 levels. From 1990 to present we have reduced emissions from our plants by 30%. Thus 20% remains for the period 2008–2030. We have a continued high ambition to reduce our emissions after 2030 as well, but it is very difficult today to estimate the potential – several scenarios are conceivable for 2050.



Efficient use of energy

Using energy more efficiently holds substantial potential to reduce CO₂ emissions. Vattenfall offers advice on improving energy efficiency to the general public and its retail and corporate customers. Several major corporations have turned to Vattenfall to analyse their energy consumption and improve the efficiency of their manufacturing processes.

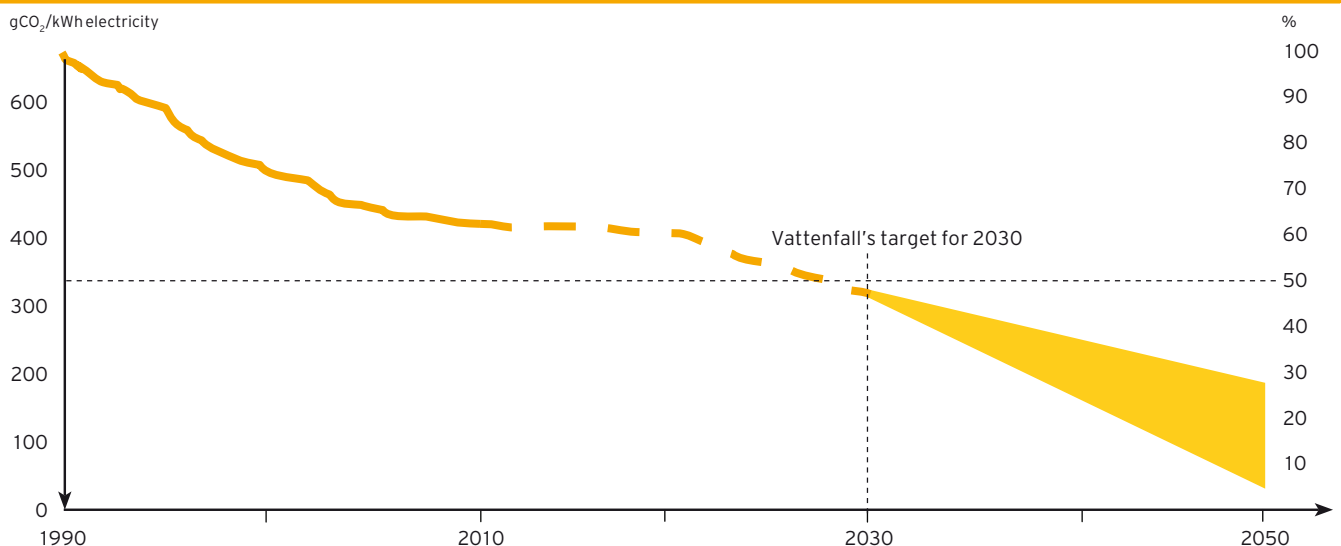


International co-operation

Vattenfall is deeply involved in international climate initiatives, where we are working to bring about a global accord on reducing greenhouse gases. This includes our launch of the global 3C¹ initiative – Combat Climate Change – which has rallied the participation of some fifty international companies. Vattenfall has also created a Climate Map that includes analyses and suggestions on how emissions can be reduced globally (see page 6).

1) Read more at www.combatclimatechange.org.

Vattenfall's ambition is to halve specific emissions from its own operations from 1990¹ levels by 2030



1) 1990 is the base year for both the Kyoto Protocol and EU emission targets.

OUR STRATEGIC AMBITIONS – THE CORE OF VATTENFALL'S WORK

Vattenfall's **vision** is to be a leading European energy company. Our **mission** is to enhance our customers' competitiveness, environment and quality of life through efficient energy solutions and world-class service. Our financial targets and our five strategic ambitions are the core of this undertaking. Our work will be guided by our **core values**: openness, accountability and effectiveness.

Vattenfall aspires to provide energy solutions that meet its customers' needs and contribute to sustainable development of society. Continuously creating value in our business is a fundamental prerequisite for our long-term ability to invest in new energy generation with low environmental impact. How we achieve this is set out by our five strategic ambitions. These ambitions interact with and are partly dependent on each other.

If we can offer energy solutions that meet our customers' needs and contribute to sustainable growth of society, we will also win the trust of our customers and the general public.

If we have the public's trust, we can more easily attract the right competence.

With the right competence, good leadership and committed employees, we can be a benchmark for the industry in our work.

If we are a benchmark for the industry, with focus on operational efficiency and value creation, we can continue to expand with good profitability, which is a basic prerequisite for our ability to fulfil our task of contributing to sustainable growth of society.

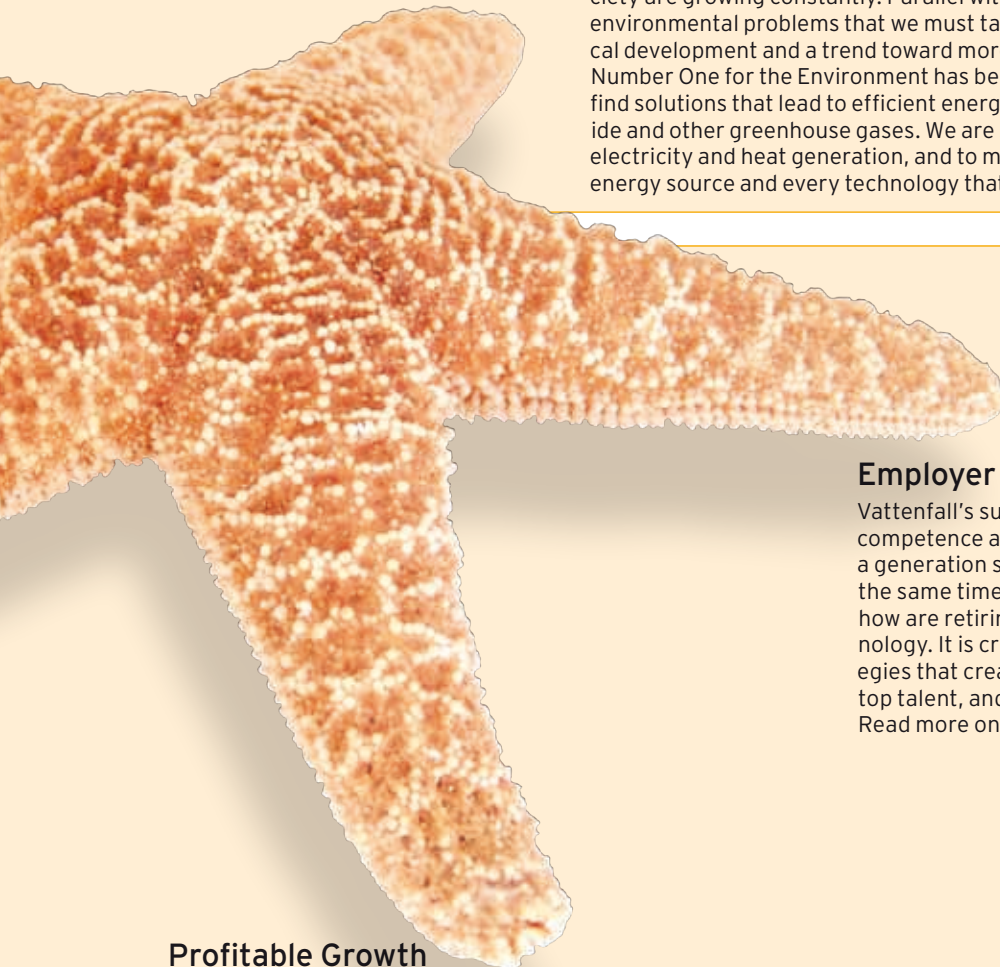
On the following pages we describe our priorities in detail as well as the goals for each of our strategic ambitions.

Number One for the Customer

Having satisfied customers who put their trust in Vattenfall is essential for gaining acceptance for the Company's operations and our ability to develop new, sustainable solutions. Our goal is to gain market shares at the same time that we continue to increase customer satisfaction – all with maintained or strengthened profitability. Read more on pages 10–11.

Benchmark for the Industry

Intensifying competition and retail price pressures will be an enduring trend in the European energy market. To address this challenge and maintain profitability, Vattenfall must continue to focus on operational efficiency and value creation. In recent years Vattenfall has significantly improved its efficiency, but this has mainly taken place in parts of the Group. This work must continue, but we must also take advantage of synergies and opportunities to improve the efficiency between our various business areas and regions. Read more on pages 16–17.



Number One for the Environment

Demands on the energy industry to contribute to sustainable development of society are growing constantly. Parallel with this is our growing knowledge about the environmental problems that we must tackle. In pace with globalisation, technological development and a trend toward more stringent legislation, our ambition to be Number One for the Environment has become even more relevant. Our goal is to find solutions that lead to efficient energy use and reduce emissions of carbon dioxide and other greenhouse gases. We are striving to take a leading role in renewable electricity and heat generation, and to maintain a world-class standard in every energy source and every technology that we use. Read more on pages 12–13.

Employer of Choice

Vattenfall's success requires good leadership, the right competence and committed employees. Vattenfall is facing a generation shift that is presenting major challenges. At the same time that experienced people with unique know-how are retiring, students are showing less interest in technology. It is crucial that Vattenfall has resources and strategies that create conditions to attract, develop and retain top talent, and to inspire employees to be top performers. Read more on pages 18–19.

Profitable Growth

Profitable growth is vital for Vattenfall's future competitiveness and ability to create sustained economic value. Size carries a number of strategic advantages, such as market position, financial strength and ability to spread risks. Added to these are operational advantages, such as more cost-effective purchasing and leaner administration, which also enhance profitability. Read more on pages 14–15.

See the following pages for a detailed presentation of our priorities and goals for each strategic ambition.

NUMBER ONE FOR THE CUSTOMER

Having satisfied customers is a basic prerequisite for Vattenfall's continued success. Customer satisfaction has a major influence on the public's perception of Vattenfall's ability to inspire confidence and acceptance for our business – not least when it comes to fostering an understanding that it takes a long time to develop new and sustainable solutions.

Challenges/opportunities → Strategies

Boost confidence in energy companies

A common perception in Vattenfall's markets is that electricity prices are too high as a result of deregulation, even though numerous independent studies show that the market is functioning as intended.

Boost confidence in how environmental issues are handled

Pressure on the energy sector to actively contribute to curbing climate change has never been greater. At the same time, the industry has not succeeded in creating an understanding that the transformation to a more environmentally friendly energy system is a continuous process that will take a long time and require major investments.

Address competition and the increasing propensity among retail customers to change electricity suppliers

Competition in the retail market has risen since customers have been given the opportunity to choose electricity suppliers.

- Ensure that our products and service are competitively priced and measure up to customers' wishes.
- Improve the quality and effectiveness of all service processes aimed at customers.
- Increase the public's understanding that the work on creating tomorrow's energy solutions is complex.
- Develop our offerings and learn from best practices, both within and outside the energy industry.
- Continue to grow our customer base in the Nordic countries and Poland; win back and gain new customers in Germany.
- Teach our customers about how they can use our products in an efficient and environmentally friendly way.

Vattenfall is working to win back retail customers in Germany

Vattenfall has lost nearly 250,000 retail customers in Germany – mainly due to rate increases and a crisis in confidence caused by the events at the Krümmel and Brunsbüttel nuclear power plants, but also to mounting competition in the retail market and a growing propensity among customers to change electricity suppliers. Vattenfall has traditionally had very high market shares in Berlin and Hamburg (85%–90%).



To restore confidence and win back customers, Vattenfall has worked hard at improving communication with customers and others in the business environment, such as through a telephone hotline that people can call for information about our nuclear power plants. The product offering has been improved, such as with the introduction of "Vattenfall Easy", an attractively priced electricity product offered online. To attract new customers in Germany, Vattenfall is also intensifying its marketing in areas outside Berlin and Hamburg.

In the commercial market, Vattenfall has a strong position and signed contracts with more than 550 new customers.



By being Number One for the Customer, Vattenfall aims to gain market shares along with continued improvements in customer satisfaction – all with maintained or improved profitability. This means that our ambition is to be the customers' number one choice in relevant markets, based on an enhanced offering of services and high confidence.

Goal achievement and noteworthy activities in 2007

Successful offering

Vattenfall's "Trygghetsavtal" – a three-year fixed-price electricity contract with a renewal right in the Swedish market – has achieved great success and helped boost market share from 13% to 15%.

Industry collaboration

Vattenfall has established long-term co-operation agreements with industrial customers such as Boliden, Billerud and Volvo.

New commercial customers in Germany

During the past year Vattenfall attracted 550 German companies as new electricity customers.

Online energy guides

In Sweden and Germany Vattenfall launched online energy guides to help retail customers use energy more efficiently.

Option to choose energy source

Swedish electricity customers now have the option to choose electricity generation source, i.e., wind, hydro or nuclear power.

"Vattenfall Easy" – new German product

To improve its product offering in Germany, Vattenfall launched an attractively priced online product that is marketed in selected areas in Germany.

Measuring customer satisfaction

To date the Customer Satisfaction Index has been measured in different ways in Vattenfall's different markets. During the year a project was started to develop a Group-wide CSI index.

Goal 2008–2010

63 Customer Satisfaction Index score of 63 for retail customers

Long-term goal

70 Customer Satisfaction Index score of 70 for retail customers

Goal measurement and follow-up

Since 2004 Vattenfall has been conducting extensive measurements of customer satisfaction. To date these have been conducted locally. In 2007 a project was started to devise a Group-wide Customer Satisfaction Index in the aim of achieving transparency and comparability. The first Group-wide measurement will be conducted in spring 2008.

In the Swedish market Vattenfall also compares the results of these with the Swedish Quality Index, an independent instrument for measuring and analysing how customers rate products and services in Sweden. Vattenfall received a rating of 57.4 in this survey among retail customers, which is higher than our largest competitors in the Swedish market, but low compared with smaller electricity suppliers and other industries. The energy industry as a whole receives lower scores than other industries. These measurements are not comparable with the index values that Vattenfall is drawing up as from 2008, but they are of interest to monitor.

NUMBER ONE FOR THE ENVIRONMENT

Demands on the energy industry to contribute to sustainable development of society are growing constantly. Parallel with this, our knowledge is growing about the environmental problems that we must tackle. In pace with globalisation, technological development and more stringent legislation, our ambition to be an environmental leader has become even more relevant. Our goal is to find solutions that lead to efficient energy use and reduce emissions of carbon dioxide and other greenhouse gases.

Challenges/opportunities → Strategies

Rising pressure on the energy industry

Pressure on the energy sector to curb climate change has risen substantially in recent years.

Prices of emission allowances

Prices for the second trading period (2008–2012) are higher than during the first period (2005–2007). It is not clear what the trading system will look like after 2012, but indications are that all emission allowances will be auctioned out.

Greater focus on CCS technology

Development of CCS (carbon capture and storage) technology is a central part in the work on reducing CO₂ emissions from the energy sector. It is crucial that this technology can be further developed and commercialised in the next 10–15 years.

- Continuously manage and measure the effects of environmental work, and integrate environmental awareness in all aspects of operations
- Reduce CO₂ emissions from our own plants
 - Increase the proportion of investment in low CO₂ emitting electricity and heat generation
 - Increase efficiency of existing electricity and heat production plants, as well as the efficiency of distribution networks
 - Reduce CO₂ emissions in units that do not generate electricity and heat
- Step up the pace of development work in renewable electricity and heat production and carbon capture and storage (CCS)
- Participate in the ongoing development of the next generation of nuclear power reactors, with improved environmental and safety features
- Campaign for global and market-oriented climate and environmental agreements
- Convey knowledge to our customers on how they can use our products in an efficient and environmentally responsible way

We are striving to take a leading role in renewable electricity and heat generation, and to maintain a world-class standard in every energy source and every technology we use. Vattenfall is firmly resolved to be the leader in the development of energy solutions that can contribute to reduced CO₂ emissions. Our goal is to reduce CO₂ emissions from our own operations by 3 million tonnes by 2010. By 2030 our goal is to cut emissions by half compared with 1990 levels.

Goal achievement and noteworthy activities in 2007

Lillgrund on stream

The Lillgrund wind farm came on stream. The 48 wind power turbines generate 0.33 TWh of renewable electricity on a yearly basis.

Important advances in CCS

Construction of a pilot CCS (carbon capture and storage) plant based on oxyfuel technology at the Schwarze Pumpe plant in Germany is under way. The plant is expected to be commissioned in 2008. Vattenfall and EEG, a subsidiary of Gaz de France, signed an agreement on a joint CO₂ storage project at the Altmark gas field in Germany.

The decision was also made to participate in the construction of a pilot CCS plant in Mongstad, Norway, based on post-combustion technology. The plant will be commissioned in 2010 in an initial phase and will be operating on full scale in 2014.

Coal-fired plants with high environmental performance

In Germany, construction began of a new, lignite-fired power plant in Boxberg and a new coal-fired plant in Hamburg, Moorburg. These plants will have a high level of efficiency and environmental performance, which will lead to reduced CO₂ emissions once they are commissioned and lead to the phase-out of older power plants.

Several new biofuel plants

Construction has begun of biofuel-based combined heat and power plants in Denmark, Germany, Poland and Finland, among other places.

Capacity-improvement of nuclear power

The capacity of Vattenfall's Swedish nuclear power plants was raised by approximately 124 MW in 2007.

Goal 2008–2010

-3 3% reduction in CO₂ emissions in three years (corresponding to 1 million tonnes/year)

Long-term goal

-50 Halving of CO₂ emissions per produced unit of energy by 2030, compared with 1990 levels

Goal measurement and follow-up

Reducing CO₂ emissions has been identified as the number one environmental objective at the Group level. This is a very long-term undertaking; the decisions we make today in this area will not bear an impact for another ten years. Although electricity and heat generation is the greatest source of CO₂ emissions, all aspects of operations will be monitored with respect to this objective. The entire value chain must be efficient from a climate perspective compared with similar operations.

The target for 2008–2010 has been set as a percentage change compared with 2007 levels: 3% corresponds to 3 million tonnes. Our long-term goal is to halve CO₂ emissions per produced unit from 1990 levels to 2030. From 1990 until today, emissions from our plants have been reduced by 30%. Thus 20% remains for the period 2008–2030. Progress towards our goal will be followed up on a yearly basis.

Hydro power upgrade

Upgrades of hydro power plants during the year resulted in 18 MW of higher capacity.

Plans for new hydro power plant

A new 4.6 MW hydro power plant is planned in Abelvattnet, Sweden, which could be Vattenfall's first newbuild hydro power station in 15 years.

Environmental management system in Poland certified

Vattenfall's heat production operation in Poland has adopted an environmental management system, undergone external inspection and obtained certification.



PROFITABLE GROWTH

Profitable growth is a prerequisite for Vattenfall's future competitiveness and ability to create economic value and be a positive force in the industry while supporting sustainable development of society. Size carries a number of strategic advantages, such as market position, financial strength and ability to spread risks. Added to these are operational advantages, such as more cost-effective purchasing and leaner administration, which also enhance profitability.

Challenges/opportunities → Strategies

Consolidation

The ongoing restructuring and consolidation of the European energy market will give rise to opportunities for Vattenfall to acquire, enter into joint ventures or in other ways actively participate in the consolidation of the market in the coming five years. However, there is a limited supply of suitable objects in the market.

Potential for organic growth

A growing need of new generation capacity and upgrades of existing facilities are opportunities to grow organically. Investment opportunities in renewable energy, nuclear power and low CO₂ emitting coal-based electricity generation are of particular interest.

Synergies

The correlation between the markets for gas and coal, and electricity and heat production, offer attractive synergy opportunities. Vattenfall is today one of the few European players that does not have any large-scale gas operations.

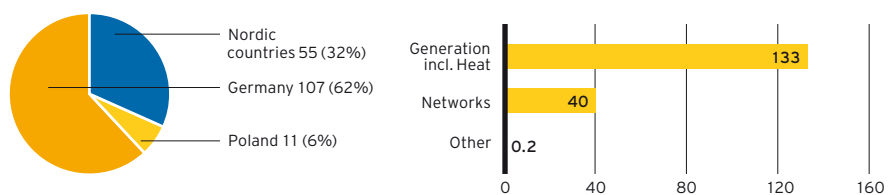
Efficiency improvement

Strong price pressure is expected to continue to affect the industry. It is therefore necessary to continue improving efficiency and foster a keen sense of cost consciousness, both at present and during future growth.

- Vattenfall will continue to be an integrated energy company, with focus on electricity and heat generation
- Strengthen our position in markets in which we are currently active and at the same time expand in geographically close markets in which the opportunities for value creation are considered to be favourable
- Achieve growth both organically and through acquisitions or mergers

Expanded investment programme for 2008–2012

SEK 173 billion 2008–2012 (2007–2011: SEK 134 billion)



Vattenfall plans to invest a total of SEK 173 billion during the five-year period 2008–2012 (see breakdown by market and region above). The main explanation for the expanded investment programme compared with the previous five-year plan (SEK 134 billion) is higher investment costs in all markets, CO₂-related investments including CCS demonstration plants, and higher costs for connection of wind power plants and other electricity network investments.

Organic growth is a key component of Vattenfall's growth strategy; however, it is important at the same time to actively participate in the ongoing consolidation of Europe's energy market. Standing on the sidelines of the consolidation of the energy sector would most likely result over time in significantly lower market shares in key European markets, which could have a negative impact on profitability.

Goal achievement and noteworthy activities in 2007

Growth investments

During the five-year period 2008–2012 Vattenfall plans to spend approximately SEK 67 billion in growth investments in electricity and heat generation.

Organic growth

Total installed capacity increased by 116 MW, net, in 2007:

- The Lillgrund wind farm came on stream during the year. The 48 wind power turbines have an installed capacity of 110 MW.
- Capacity increasing measures at nuclear power plants in 2007 boosted installed capacity by 124 MW. Installed capacity at hydro power plants was increased by 18 MW.
- Two German waste combustion plants (Rostock and Rüdersdorf) are in the final stages of construction and will begin operating in 2008.

Heat

Vattenfall's total installed capacity for Heat decreased by 722 MW, net, as a result of divestments and plant closures.

Growth opportunities in the UK

Vattenfall has established an office in London to evaluate business opportunities in the UK market, mainly in power generation and sales. Among other things Vattenfall is participating in the regulatory process aimed at building new nuclear power facilities in the UK.

Increased electricity and heat generation

Electricity generation increased by 1.3% to a total of 167.6 TWh. Heat production increased by 2.8% to 36.2 TWh.

Market share

At year-end Vattenfall was the fifth-largest electricity generator in Europe and the largest producer of heat in western Europe. At year-end 2007 Vattenfall's market share was approximately 5%.

Goal 2008–2010

+10 Increase in market share by 10% by 2010

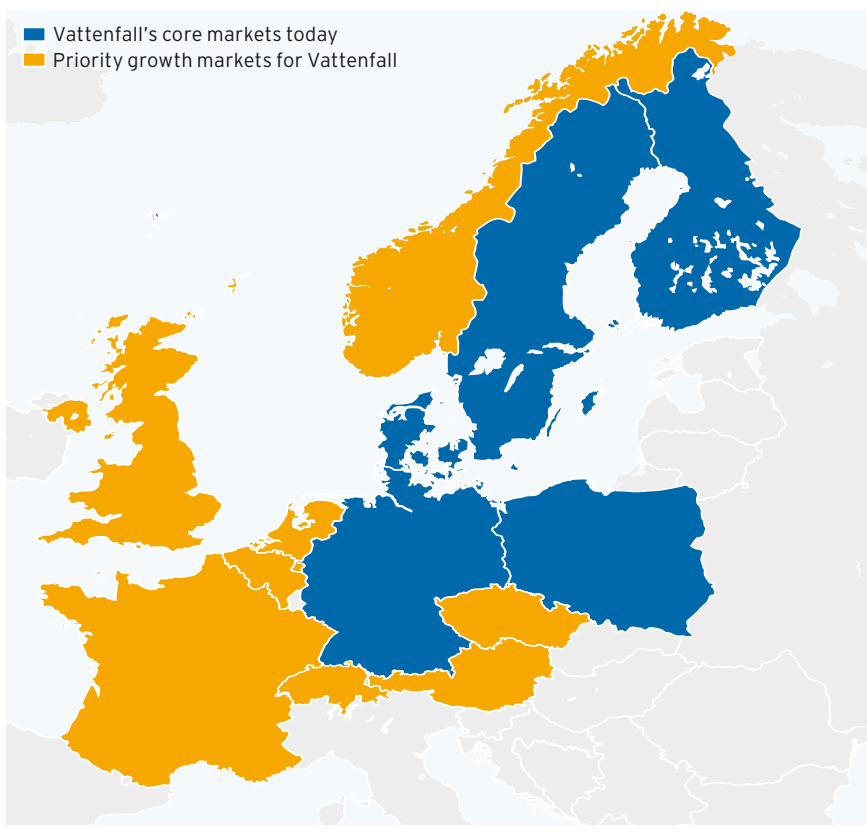
Long-term goal

10 10% market share in tomorrow's integrated European energy market

Goal measurement and follow-up

Vattenfall's market share is calculated as the share of the total market for electricity and district heating in EU27 + Norway and Switzerland. At year-end 2007 Vattenfall's market share was 5%.

Priority growth markets for Vattenfall



BENCHMARK FOR THE INDUSTRY

Being a benchmark for the industry – being one of the most efficient energy companies – is an important component in Vattenfall's ambition to continue growing with sustained profitability. Continuous productivity improvements are a prerequisite for Vattenfall's ability to assert its competitive strength

Challenges/opportunities → Strategies

Consolidation

Integration of the European energy market is accelerating, and we must foresee future challenges and adapt our organisational and leadership structures accordingly.

Rising price pressure and competition

It is therefore necessary to continuously improve cost efficiency and foster a keen sense of cost consciousness.

Rising regulatory pressure

More stringent CO₂ targets from the EU are leading to higher prices for emission allowances and greater demand for renewable energy generation.

Higher generation taxes on hydro and nuclear power in Sweden.

EU proposal for ownership unbundling, entailing the break-up of companies involved in both electricity generation and transmission (read more on page 20).

- Clarify Vattenfall's position vs. main competitors
- Define goals for achieving productivity performance that is on a par with the upper quartile in the industry
- Continue work on achieving synergies across national borders



Maintenance work at the Älvkarleby hydro power plant in Sweden.

in a world characterised by rising competition, regulatory changes and price pressure. To meet these challenges, Vattenfall will accelerate the pace of its work on improving its operational efficiency and increasing cost-consciousness within and between all parts of the company.

Goal achievement and noteworthy activities in 2007

Operational efficiency

A programme designed to bring about an 11% improvement in productivity was introduced.

More efficient generation

Renewals and upgrades of existing nuclear and hydro power facilities have boosted installed capacity by 124 MW and 18 MW, respectively.

Business Group Central Europe

The decision was made to combine Business Group Germany and Business Group Poland, forming the new Business Group Central Europe, to further integrate operations and thereby strengthen our position, develop our business and continue our profitable growth in Central Europe.

Joint-Group purchasing function

Vattenfall's purchasing function is being co-ordinated within the Group in a unit that is responsible for service, advice and control for all internal customers. Focus is on creating clear purchasing categories and thereby strengthening the purchasing organisation's contribution to the business activities.

Joint-Group IT function

During the year a Group-wide IT function was formed with responsibility for procurement, infrastructure and service.

More efficient purchases of hard coal

Vattenfall's purchases of hard coal have been centralised in a unit of Vattenfall Trading Services, which will improve efficiency and lower costs.

Goal 2008–2010

-5

11% improvement in productivity, corresponding to a cost reduction of SEK 5 billion compared with 2006 levels

+

Vattenfall will be in the upper quartile in the industry

Goal measurement and follow-up

Goal 2008–2010: The 11% improvement in productivity corresponds to a cost reduction of SEK 5 billion by 2010 from the 2006 cost base.

Productivity improvements will be implemented along with continuous improvements in service and quality.

Some operations are not covered by the goal, such as Research & Development and fuel purchases.

EMPLOYER OF CHOICE

Vattenfall's success requires that we have good leadership, the right competence and committed employees. Vattenfall is facing a generation shift at the same time that it is pursuing major investment

Challenges/opportunities → Strategies

Attract and develop talent

Demographic changes are giving rise to greater competition for top talent, at the same time that a large number of employees will be leaving Vattenfall for retirement.

Develop leadership

International expansion has increased the complexity of Vattenfall's organisation, which is putting higher demands on our managers' ability to manage and lead major change programmes.

Build trust

The public's trust in Vattenfall and other energy companies is low. Vattenfall is working to restore trust and thereby also be able to recruit the most qualified and motivated employees.

- Vattenfall must ensure access to the competence it needs to meet the challenges of the future
- Our leadership succession programme must ensure access to leaders today and in the future
- Continuous improvement of Vattenfall's organisation will boost employee commitment. The annual My Opinion employee survey, which includes a Commitment score, supports this process

Management development at Vattenfall

Vattenfall Management Institute (VMI) designs and implements high quality leadership and management development programmes in areas of strategic importance for the Group.

Vattenfall's Group-wide leadership development programme is targeted at all managers. It provides basic managerial training for all management levels and advanced leadership training for senior management and potential senior executives.

Every other year Vattenfall conducts an international trainee programme, and an international rotation programme has been set up for "Young Potentials".

The aim of the Group's leadership development programmes is to convey the Group's strategies and core values, and to promote a shared understanding for Vattenfall's corporate philosophy and leadership criteria. The goal is to support the company's managers in their role as flexible leaders in an international and multicultural environment.



programmes, which presents a challenge. Vattenfall has resources and strategies to attract, develop and retain top talent, and to inspire employees to be top performers.

Goal achievement and noteworthy activities in 2007

Young Potentials development programme

A new, international rotation programme was initiated for some 200 "Young Potentials".

Greater mobility among Vattenfall's managers

A programme designed to increase mobility of managers was introduced, among other things by providing greater opportunities for positions abroad. In connection with this, an evaluation was performed of all management positions.

Higher share of female managers

The share of women in management positions has risen during the past three years.

Drop in sickness-related absence

Sickness-related absence decreased in all countries.

Action plan for greater commitment

In autumn 2007 an action plan was launched to boost employee commitment. Vattenfall's Commitment score in 2007 was 69 (74).

Goal 2008-2010

75 Commitment score of 75

Long-term goal

81 Commitment score of 81

Goal measurement and follow-up

Vattenfall has been conducting its annual My Opinion survey for the entire Group since 2004, as a tool for developing the organisation and strengthening employee commitment. The results are then used as documentation for overall action plans that are adopted by the executive management. These action plans are disseminated throughout the organisation, and all managers then make more detailed action plans together with their respective teams based on their own specific results.

The survey has a response rate of approximately 70%. The response rate has successively increased over the years, although it dropped slightly in 2007.

Using a number of questions from My Opinion, a Commitment score is generated that measures employee commitment throughout the organisation.



MAJOR CHALLENGES FOR THE ENERGY SECTOR

The environment and climate issue is giving rise to higher demands and is affecting the game rules for Europe's energy sector. At the same time, there is a growing need for new generation capacity and expanded electricity distribution. Together these factors entail an intensive transitional and investment phase for Europe's energy companies.

Three main challenges are driving development of Europe's energy markets:

- *Deregulation and liberalisation:* On 1 July 2007 the electricity and gas markets were opened to competition across the EU. However, much still remains to be done to increase competition in many countries. To accelerate development, during the year the EU presented a number of proposals that put more stringent demands on utilities, such as requiring energy companies that have both transmission and electricity generation to split up, or unbundle, these activities.
- *The climate issue.* During the year, the climate debate escalated in pace with new reports from the UN's Intergovernmental Panel on Climate Change (IPCC), where the global threat has been confirmed in more concrete terms than previously. To limit CO₂ emissions, the EU has reached an accord on new, more ambitious targets, including a 20% reduction in CO₂ emissions from 1990 levels. Trading in emission allowances is one of the tools in this work, where new allocation principles will be resulting in tougher conditions for the energy sector.
- *Secure energy supply.* Europe's growing dependence on gas and oil from Russia and the Middle East is affecting the entire energy market. At the same time, Europe's electricity sector is at the threshold of a transitional phase: electricity use is rising steadily at the same time that nearly half of existing power plants will have to be replaced with new ones by 2030. Greater trading in "non-controllable" renewable energy generation, such as wind power, is also increasing the need for regulating power.

Important transitional phase

These three challenges are related in a complex way. To some extent, the climate issue is setting the framework for international directives that govern Europe's energy market. And these directives, in turn, set the conditions for energy supply.

The energy companies therefore have a considerably more difficult position in which to manoeuvre when it comes to handling their necessary investments. But with rising prices for CO₂ emission allowances, all energy companies have been given a greater economic incentive to steer their investments toward more climate-friendly generation, such as that based on biofuels, wind power, CCS (carbon

capture and storage) technology and nuclear power.

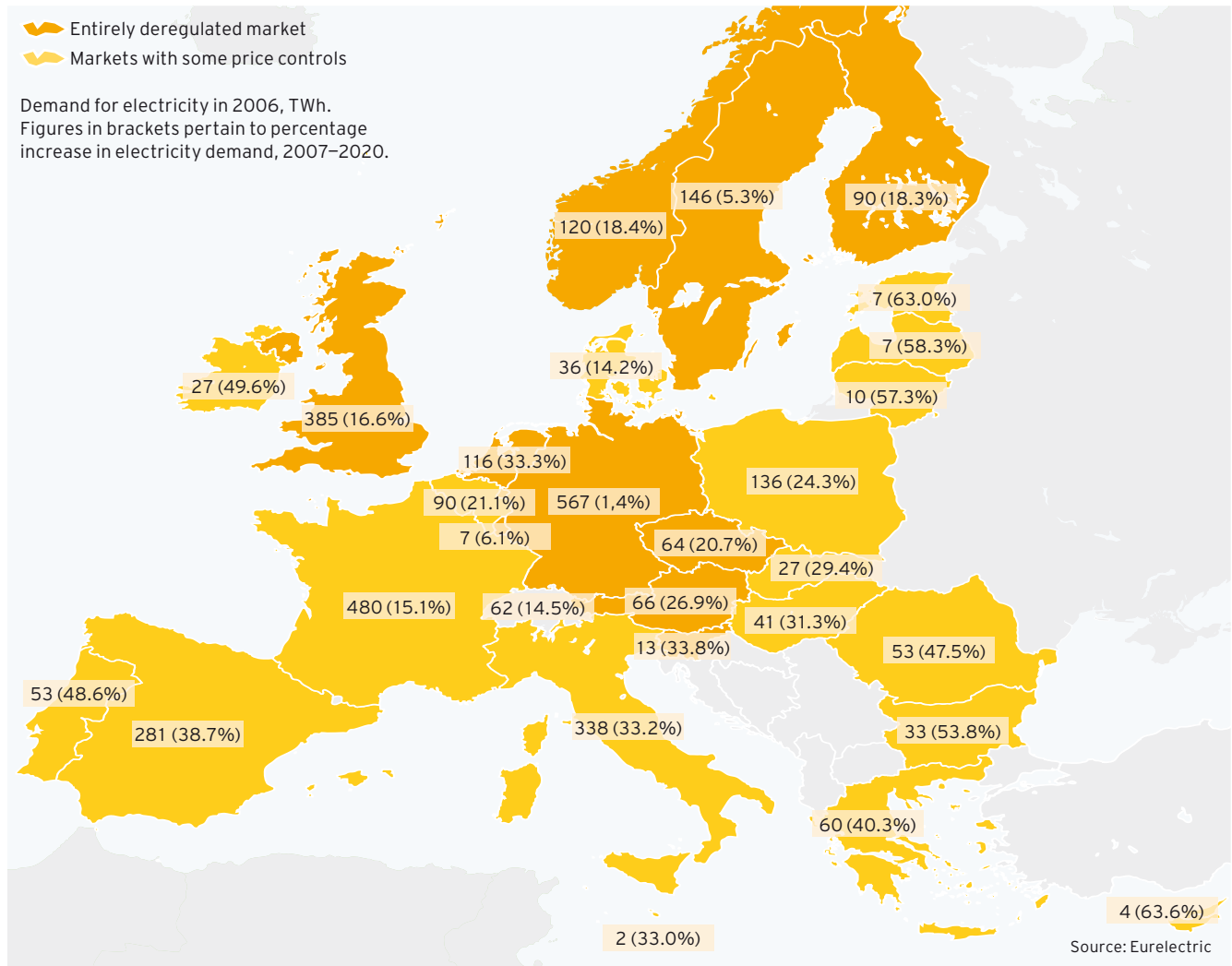
On the whole, the entire energy industry is at the threshold of a profound transition in which major investments will be necessary to meet rising energy consumption in the future as well as increasingly stringent regulation. At the same time, utilities are encountering mounting pressures from customers and public opinion with respect to both climate and price issues. The transition to a new energy system will cost money at the same time that consumers are demanding lower electricity rates. Making well balanced long-term investment decisions in an energy market with these conflicting demands presents a tough challenge to companies working in the energy sector.

Deregulation and liberalisation

On 1 July 2007, all 27 EU countries opened their electricity and gas markets to competition, in accordance with the EU's electricity and gas market directive from 2003. The aim of this liberalisation is to create effective price mechanisms and incentives to invest in new generation and network expansion. Already prior to 1 July 2007, 13 EU countries had opened their markets to competition. Even though most of Europe's consumers are now free to choose electricity supplier, this does not mean that the energy markets have been fully liberalised. Only ten countries have completed total deregulation (see map on page 21).

Most EU countries still have various types of price controls in place which impede pricing and competition – especially in the electricity sector – and according to an EU report published in June 2007 ("Status review on end-user price regulation"), this is not sustainable in the long term. Another problem is that certain countries are striving to control their domestic energy assets and support their so-called national champions. The European Commission has responded to this with new, more stringent directives calling for the break-up of companies engaged in both electricity generation and transmission. In September the Commission presented the third electricity and gas market directive ("the Third Package"), in which it proposes two alternatives: energy companies engaged in both electricity generation and transmission must either sell off their entire transmission business, or they may retain ownership rights but will be forced to outsource transmission activities to Independent System Operators. The directive also proposes

Europe's electricity market



On 1 July 2007, all 27 EU countries opened up their electricity markets for competition. But only ten of the countries (marked in orange on the map) have fully deregulated their electricity markets. The other 17 countries still have various forms of price regulations in effect which impede competition, particularly regarding pricing to end customers.

Total demand for electricity in the 27 EU countries is today approximately 3,000 TWh. Germany has the largest level of consumption, 567 TWh, followed by France, the UK and Italy. Total demand for electricity in the EU27 is expected to rise approximately 27% by 2020. The rate of growth is highest in southern and eastern Europe.

the establishment of a joint European energy regulator and that network oversight rules be made more uniform.

Transition creates bottleneck

The aim of deregulation measures in the EU is to merge national markets into regional markets and thereafter to link these together into a uniform European market. One of the most highly developed regional markets today can be found in the Nordic countries, with the Nord Pool electricity

exchange. Creating functioning regional markets and thereafter a single European market will require, among other things, greater capacity for the physical transfer of electricity between countries. Today only a small percentage of electricity trading is conducted across national borders. Strengthening the electricity connections and removing transmission bottlenecks – to an extent that is socio-economically justified – is a priority issue in the EU. A 700 MW cable between Norway and the Netherlands (NorNed)

is expected to begin transmitting in early 2008. A second cable (800 MW) between Finland and Sweden (Fenno-Skan 2) will begin transmitting in 2010, while a 600 MW cable between eastern and western Denmark (Storabält) will begin operating in 2010.

Although liberalisation has in most cases led to more effective pricing, electricity prices for end-users have risen steadily in recent years in many deregulated markets. This is due to higher taxes, higher fuel prices and higher emission allowance prices, among other things. The result has been a rise in media attention and growing pressure from customers – and by extension a decline in trust in energy companies. Being able to explain pricing and instilling trust in the pricing mechanisms is a major challenge for all energy companies.

Climate issue

In 2007 the public's interest in the climate issue rose significantly in the wake of numerous new reports and research findings which almost without exception say the same thing: if nothing is done about CO₂ emissions, scientific studies indicate that it will have wide-ranging consequences on such areas as natural disasters, ecosystems, and access to food and water in certain regions of the world. During the year, the IPCC presented four reports that confirm these conclusions.

This has resulted in stronger pressure than ever before from the general public to deliver solutions to the climate problem. In March the EU presented new, more ambitious targets: By 2020 the EU countries must reduce their CO₂ emissions by 20% from 1990 levels, and by 2050 the ambition is that CO₂ emissions will have decreased by 60%–80%. On the same occasion, the EU also set new

targets for renewable energy (increasing its share to 20% by 2020, compared with slightly higher than 8% today) and energy efficiency (20% improvement by 2020). The target for biofuels has also been increased, from just over 1% today to 10% by 2020.

Trading in CO₂ emission allowances, which began in 2005, is one of the key tools for meeting the CO₂ targets. The aim of the emission allowance system is to use market mechanisms to effectively reduce CO₂ emissions. Companies receive emission allowances corresponding to a certain level. If this level is insufficient, a company must take action to reduce its emissions or buy more emission allowances on the market. During the first trading period (2005–2007), which was a trial period, there was a surplus of emission allowances in the market, corresponding to 150–170 tonnes, and prices successively fell to very low levels.

During the autumn, the allocation for the next trading period (2008–2012) was completed. In most countries the number of emission allowances was sharply reduced (see box on page 23), which will give rise to higher production costs for energy companies. For Vattenfall's German unit, for example, the new allocation will give rise to costs after tax in the range of SEK 3.8–4.7 billion¹.

What happens when the Kyoto Protocol expires in 2012 is unclear. In December the UN held a major climate conference in Bali, where all countries in attendance agreed on a plan to reduce CO₂ emissions, but so far without any concrete measures.

For the energy sector, the new climate instruments have given rise to uncertainty regarding what their future production portfolios will look like. Long lead times and unclear game rules could cause utilities to postpone investments, giving rise to “boom-and-bust cycles” – periods of underinvestment and rising prices that are then followed by overinvestment and falling prices.

One consequence of the climate issue is that biofuels have also become more expensive. Competition for forest and agricultural products has risen in recent years. The rise in grain-based ethanol production is one example. Higher prices for biofuels translate into higher prices in the heat market.

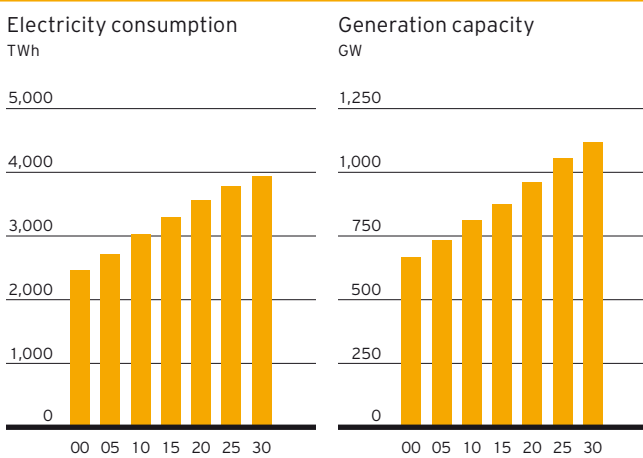
Secure energy supply

The third major challenge in Europe's energy market concerns the safe supply of energy. This issue includes the rising dependence on imported oil and gas, and how to secure future domestic electricity generation and distribution.

Europe's dependence on imported oil and gas is expected to rise. Today roughly half of the EU's energy is imported from non-EU countries; by 2030 approximately 70%² is expected to be imported – in many cases from countries with instable political conditions.

Against this background, energy supply has become a pressing issue. Demand for electricity is expected to rise in the years ahead³. In the EU today there are approximately 280 million electricity customers, with Germany as the

High investment up until 2030 in the EU



Demand for electricity in the EU will rise by slightly more than 30% by 2030, from approximately 3,000 to 4,000 TWh. Meeting this rising consumption will require greater investment in new power generation. Ageing power plants will also need to be replaced. In all, 822 GW of new generation capacity will be needed by 2030, of which approximately 440 GW will replace power plants that have been decommissioned.

Source: Eurelectric.

Stricter allocation in future emission allowance trading



The Jämschwalde power plant in Germany.

During the first period of the EU's emission allowance trading scheme, 2005–2007, prices varied widely. Initially emission allowances traded at approximately EUR 30/tonne. In May 2006 it became clear that the actual emission levels were at a considerably lower level than anticipated. This led to an immediate drop in prices (see chart on page 24). For the second period of the scheme, 2008–2012, the number of emission allowances was reduced sharply. The cap for the number of emission allowances, which is set by the EU Commission, has been lowered by just over 200 million tonnes per year. Virtually all EU countries have been forced to cut their allocation of emission allowances. Sweden, for example, requested a cap of 25.2 million emission allowances, but received 22.8 million, while Germany had to lower its cap from 482 to 453 million allowances. During the second stage, the use of emission credits (Joint Implementation and Clean Development Mechanism) will also be adjusted downward in most countries. Through these flexible

mechanisms, which are included in the Kyoto Protocol, companies can buy emission reductions from non-EU countries.

What will happen after 2012 is still unclear. However, the EU has set the following targets: a 20% decrease in CO₂ emissions by 2020 (compared with 1990 levels) and a halving by 2050. The EU is one of the prime driving forces in international climate work and is working hard for a new, concrete accord after the Kyoto Protocol, which will expire in 2012. However, indications are that all emission allowances will be auctioned out, that is, there will be no free-of-charge allocation whatsoever.

At the UN summit in Bali in December, the countries in attendance agreed on a joint plan for climate work following the expiration of the Kyoto Protocol. All countries are in agreement that drastic measures will be needed to reduce emissions. The goal is to reach an agreement that covers all countries at the UN summit in Copenhagen in 2009.

largest country (16% of electricity customers). Total annual demand for electricity today is approximately 3,000 TWh, and this is expected to rise by approximately 800 TWh by 2020. The rate of growth is highest in southern and eastern Europe. In northern Europe the growth rate is lower (see map on page 21).

Europe's power plants in need of renewal

In all, an additional 822 GW of new generation capacity will be needed in Europe (EU-25)³ by 2020. This includes both replacement of older generation facilities (approx. 440

GW) and increases in existing capacity. A large share of Europe's power plants will become obsolete in the coming decades – particularly coal-fired and nuclear plants.

More stringent climate standards will lead to a change in generation mix in tomorrow's energy market. Gas plants and renewable fuels will be increasing the most, according to Eurelectric's estimations. Construction of the third generation of nuclear power plants has now also begun in a few countries, including France and Finland.

In the wake of more frequent natural disasters, such as storms, demands for more robust network lines have also been made. The network sector is also in major need of investment in order to replace old lines with new ones.

1) Based on a price of EUR 20/tonne for CO₂ emission allowances and without taking changes in wholesale electricity prices into account.

2) Source: European Commission Green Paper 2006.

3) Source: Eurelectric.

GREATER INTEGRATION OF NEIGHBOURING ELECTRICITY MARKETS

European electricity prices are still set in large part on national electricity exchanges, even though efforts are being made in Europe to create a more integrated market. In 2007 electricity spot prices were generally lower than a year earlier, mainly due to lower prices of CO₂ emission allowances.

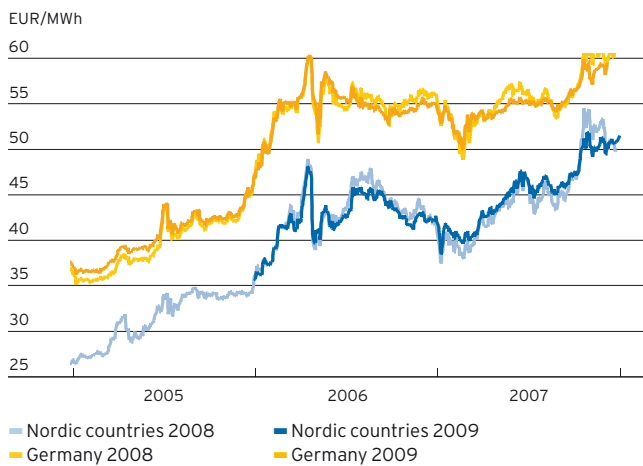
Electricity prices are still dependent on local generation conditions and pricing models, however, the price correlation between different countries has increased. In the Nordic countries, water levels are a key pricing factor; a weak hydrological balance (i.e., low water levels) leads to higher prices and vice versa (see box on page 25). In Germany, for example, the effect of hydro power is not as pronounced, since its energy generation is dominated by coal. Trading in emission allowances in the EU has also gained an increasingly noticeable impact on electricity prices in the EU.

A growing share of Europe's electricity trading is done on electricity exchanges, where producers, retailers and finan-

cial players conduct trading. Trading is done either through direct delivery, on the spot market, or for future delivery in the forward market. The Nordic electricity exchange, Nord Pool, and the European Energy Exchange (EEX) in Germany are clearly the largest exchanges in terms of volume and the number of market players.

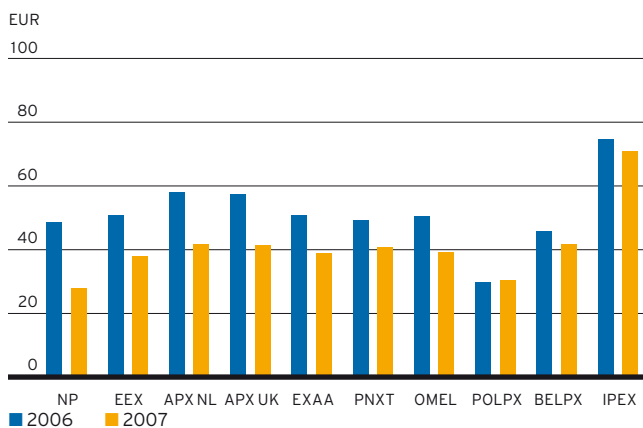
In a fully deregulated electricity market, price is determined where supply meets demand. Generation facilities are utilised by merit order, which means that plants with the lowest variable costs are put in operation first (for handling of hydro power, see box on page 25). This so-called marginal pricing entails that generation resources are utilised

German and Nordic electricity forward prices



Source: Nord Pool and European Energy Exchange (EEX).

Average spot prices on Europe's electricity exchanges



Prices of CO₂ emission allowances



The price of CO₂ emission allowances fell in 2007 from EUR 6.5/tonne to EUR 0.0/tonne. The forward contract for 2008 closed at year-end 2007 at EUR 22.3/tonne, which is 24% higher than the closing price for the same contract at year-end 2006. The forward contract for 2009 has a strong correlation with 2008 prices.

Volume spot 2007, TWh

NP, Nord Pool, Nordic countries	292
EEX, European Energy Exchange, Germany	124
APX NL, Amsterdam Power Exchange, Netherlands	21
APX UK, Amsterdam Power Exchange, UK	11
EXAA, Energy Exchange Austria, Austria	2
PNXT, Powernext, France	44
OMEL, Spanish Power Exchange, Spain	179
POLPX, Polish Power Exchange (Gielda Energii SA), Poland	2
BELPX, Belgian Power Exchange, Belgium	8
IPEX, Italian Power Exchange, Italy	231

Water levels important in the Nordic electricity market



Suorva reservoir at Stora Sjöfallet in Sweden's Lapland province.

Hydro power plays a key role in pricing in the Nordic electricity market. This is due to two important characteristics of the electricity market. First, with current technologies it is far too costly to store large quantities of electricity. Second, the electricity market requires that supply and demand are in balance at all times. Hydro power from sources that can be regulated (reservoirs) entails an opportunity to store water for electricity generation during the time of year when it is most valuable

for society. Usually water is saved during the summer and autumn for use in the winter months, when demand for electricity is greatest. In this way, hydro power can dampen price variations. In addition, because it can be regulated, hydro power dampens variations in the near term in cases when generation or demand deviates from anticipated levels. Because of these two characteristics of hydro power, the stored water has a value.

in the most efficient manner and that every generation plant receives coverage for its variable costs. Demand is thus met at the lowest possible cost and price.

Many different price areas

Electricity networks are fundamentally national, and transmission capacity between countries in the EU is very low. Today less than 10% of electricity trading is conducted between countries. As a result, electricity prices differ in different regions in Europe. The Nordic countries and some eastern European countries have relatively low prices, while Germany, France, Austria and Switzerland are usually characterised as areas with medium-high prices. The highest prices are generally found in the Benelux countries, Italy and the UK.

In time, prices will converge in pace with expansion in network connections and market integration. Major investments are needed to expand transmission capacity. It is important that these investments are balanced in order to obtain the optimum long-term socio-economic benefit.

Subsidies for renewable energy

Increasing the share of renewable energy has been pushed up high on the political agenda in the EU's Member States. The first EU directive calling for a greater share was agreed upon back in 2001. To increase the percentage of renewable electricity, many European countries have introduced economic subsidies designed to stimulate such investment. In Germany, for example, electricity from renewable sources is subsidised through a fixed level of compensation for generated electricity. The cost as well as the generated electricity is apportioned among the customers. Sweden has a system based on electricity certificates, where electricity generators receive one electricity certificate for each MWh of electricity generated from renewable energy sources that is delivered to the grid. Electricity supply companies must buy a certain amount of electricity certificates. The cost of an electricity certificate is included as a cost in the electricity price charged to the end

customer. Poland also has a green certificate system designed to stimulate expansion of renewable energy.

In March 2007 the Member States agreed on a further increase in the share of renewable energy to 20% of consumption by 2020 as part of the so-called energy strategy package. In January 2008 the EU Commission presented a proposal for a directive in which this overall target is allocated among the Member States.

Fluctuating spot prices and higher forward prices

Spot prices for electricity fluctuated sharply during the year. High water levels, mild weather and lower prices for CO₂ emission allowances led to a sharp drop in electricity prices in the Nordic countries and also in Germany to a lesser extent. During the fourth quarter, prices turned up again as a result of limited generation capacity on the Continent, higher coal and oil prices, and a slight drop in water levels in the Nordic countries. The hydrological balance in the Nordic countries showed an average surplus of 12.7 TWh for the full year 2007, compared with a deficit of 18.2 TWh in 2006. The average spot price on Nord Pool in 2007 was EUR 27.95/MWh, which was 43% lower than in 2006. In Germany the average spot price (EEX base load) in 2007 was EUR 38.0/MWh, which was 25% lower than a year ago. In Poland, the electricity market is still in a development stage, with low turnover and limited liquidity. Polish spot prices were essentially unchanged compared with 2006.

Forward prices showed a rising trend during the entire year, both in the Nordic countries and in Germany, mainly due to continued rising coal and oil prices. Forward prices for 2008 and 2009 contracts in the Nordic market closed the year at EUR 50.0/MWh and EUR 51.7/MWh, respectively. In Germany, corresponding forward prices closed the year at EUR 61.3/MWh and EUR 61.5/MWh, respectively. The forward price for emission allowances for 2008 closed at EUR 22.3/tonne at year-end 2007, which was 24% higher than the quotation for the same contract at year-end 2006.

GREATER FOCUS ON ORGANIC GROWTH AND RENEWABLE ENERGY

During the past year a number of large M&A transactions were conducted in the European energy market or are in their final stages. Several energy companies launched significantly expanded capital expenditure programmes, not least in renewable energy. Despite lower electricity prices, profitability was maintained through price hedging.

Today thousands of companies are working in the various national and regional energy markets in Europe – everything from local, municipal companies to very large international utilities with operations spanning the entire value chain: generation, distribution, electricity trading and sales. Several utilities also have substantial sales of gas and are actively striving to integrate their electricity and gas operations.

Ever since the local energy markets began being opened up to competition in the 1990s, a sweeping consolidation has taken place across national borders. The development has moved toward fewer, but larger, international players. For example, France's EDF has grown through acquisitions in the UK, Germany, Italy and eastern Europe. Germany's E.ON has acquired companies in the Nordic countries, Spain, Italy, eastern Europe and Russia, among other places. Two "mega-deals" were initiated in 2005 and 2006: Spain's Gas Natural made a bid for the Spanish company Endesa, which was followed by a rival bid from E.ON, and a merger between the French companies Suez and Gaz was approved. Both deals proved to be very difficult to carry out, and it was not until the

second half of 2007 that any results could be seen. Neither Gas Natural nor E.ON succeeded in taking over Endesa. Instead, Endesa was jointly acquired by the Italian company Enel and Spain's Acciona, while E.ON is taking over assets in Endesa and Enel worth EUR 10 billion.

In September 2007 Suez and Gaz de France (GDF) – after intervention from the French president – agreed on the terms of a merger. The new, combined GDF-Suez (which includes the Belgian company Electrabel) will be one of the top three electricity and gas companies in Europe. In the Netherlands, plans to merge Essent and Nuon were broken off. Both companies are now seeking other development paths at the same time that they are under pressure to unbundle their electricity and gas networks. In April, Spain's Iberdrola succeeded in completing its acquisition of Scottish Power in the UK and soon thereafter followed this up by acquiring the US company Energy East.

Two groups of energy companies

Following these deals, six major international players have emerged in Europe: EDF, Enel, E.ON, GDF-Suez, Iberdrola and RWE. Several of these also have substantial operations outside Europe, mainly in North and South America. The opportunities for these companies to continue growing through acquisitions in Europe are limited due to a lack of takeover candidates. However, they are expected to make fill-in acquisitions, such as in Russia and eastern Europe. In addition, a number of asset swaps will most likely be initiated as a result of the EU's demands for asset divestments in order to approve the merger between Suez and GDF.

The second group of European utilities consists of more regionally based companies: British Energy, Centrica, CEZ, Dong, EnBW, Energias de Portugal, Essent, Fortum, Gas Natural, Nuon, Scottish & Southern Energy, Statkraft, Union Fenosa and Verbund. Some of these companies are generally regarded to be takeover candidates, while others are actively striving to grow through mergers and acquisitions. Germany's municipal-owned Stadtwerke are often pointed out as acquisition targets. There are more than 700 such Stadtwerke – a few of which are of a substantial size and with operations in several different areas. For example, in 2007 an invitation for tenders was made for 49% of Stadtwerke Leipzig.

Vattenfall today stands between these two groups – it is

Major structural deals

Acquisitions

Acquiring company	Acquisition target	Amount, EUR bn
Enel and Acciona jointly	Endesa, Spain	43.4 (enterprise value)
Iberdrola, Spain	Scottish Power	17.0
Iberdrola, Spain	Energy East, USA	6.4
Suez and Gaz de France, France	Merger	–
EDP, Portugal	Horizon Wind Energy, USA	USD 2.9
Statoil, Norway	Norsk Hydro, Norway	All-share merger
E.ON	Remaining 44.6% in E.ON Sweden from Statkraft	Asset swap (asset value)
National Grid, UK	KeySpan, USA	6.2
Scottish & Southern Energy	Airtricity, Ireland	1,455 (enterprise value)

Divestments

Seller	Sales object	Amount, EUR bn
RWE	Thames Water, UK (sale to the Kemble Water consortium)	11.9
RWE	American Water (planned IPO 2008)	6–6.5 (estimated enterprise value)

smaller than the companies in the first category with pan-European operations, but has considerably larger market positions than regional companies such as Fortum and Essent.

Other players include the Russian gas supplier Gazprom, which is seeking to expand forward in the value chain by acquiring companies that have many gas customers. A relatively new phenomenon is the recent appearance of private equity investors on the scene as bidders, although the credit crunch in 2007 has curtailed their opportunities to finance such deals.

Greater focus on renewable energy

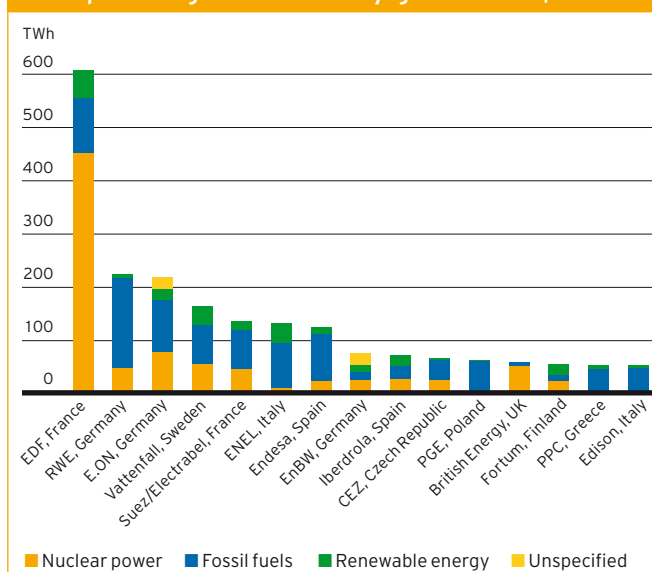
Most western European energy companies have launched extensive investment programmes, ranging in everything from construction of entirely new power stations to upgrading and renewal of existing plants, to expansion and strengthening of their electricity networks. According to a report published by the rating agency Moody's in October 2007, the following investment plans have been announced by some of the larger companies:

- E.ON – EUR 60 billion, 2007–2010 (including the Endesa assets)
- EDF – EUR 26 billion, 2006–2008 (of which EUR 8 billion earmarked for acquisitions)
- RWE – EUR 25 billion, 2007–2011
- Enel – EUR 20 billion, 2007–2011
- Suez – EUR 20 billion, 2007–2010
- Vattenfall – EUR 15 billion, 2007–2011 (For the period 2008–2012, Vattenfall's investment programme amounts to slightly more than EUR 18 billion)

Investments in renewable energy – primarily wind power – are increasing dramatically. Several companies have set ambitious targets for reducing their CO₂ emissions. Apart from leading to greater investments in new, climate-neutral facilities, this is also driving acquisition deals. For example, Iberdrola's acquisition of Scottish Power and Energy East was motivated partly by the company's ambition to strengthen its position in renewable energy. In addition, Scottish & Southern Energy recently acquired the Irish wind power company Airtricity.

A number of companies have concentrated their investments in renewable energy in special subsidiaries or separate business areas, such as E.ON Renewables, Iberdrola Renewables and RWE Innogy. Investments in nuclear power are also expected to increase. New nuclear power plants are currently being built in Finland and France, and in Sweden investments are being made to upgrade and extend the lifetime of existing facilities. New nuclear power plants are being discussed in the UK and the Baltic countries. However, the bulk of investments are being made in fossil-based energy (coal and gas). With the new CCS (carbon capture and storage) technology, production can take place with virtually no CO₂ emissions, and several companies are planning major investments in this area. However, the commercial operation of such facilities requires a sufficiently high price for CO₂ emission allowances and an effective trading system.

Europe's largest electricity generators, 2006



Strong operating profits in 2007

Most of the energy utilities posted strong financial results in 2007 – in many cases exceeding operating profit and cash flows a year earlier. Several utilities have consciously chosen to restructure their balance sheets, increase debt leverage and lower their credit rating targets as a result of debt financed acquisitions, larger dividend payouts and higher capital expenditures. According to Moody's, over a ten-year period, ratings for the major companies have been reduced from the Aa2 level to A2. Only a handful of companies feel comfortable with a rating under single A, which means at least A3 from Moody's and A– from Standard & Poor's.

Commodity and electricity prices generally have a large impact on earnings, although this impact can vary widely, depending on the company's specific situation. A company's product mix also affects its earnings. Utilities with fixed-cost generation, such as nuclear or hydro power, are not affected by rising fuel prices and therefore achieve higher margins. This applies, for example, to EDF and the Nordic power companies. Nor do higher commodity prices affect companies that own fuel assets, such as companies with own coal mines, including RWE, Endesa and Vattenfall.

A key explanation for the energy utilities' favourable earnings performance is their hedging activities. Despite considerably lower spot prices for electricity in 2007, operating margins have not been hurt. This is because most players had already hedged a large part of the year's production via forward contracts at higher prices. Many companies now disclose in their quarterly reports what percentage of their planned future generation has been hedged. However, only few companies disclose the price levels at which their hedges were taken. (For more information on hedging, see page 72.)

Higher shareholder demands

Despite sharply rising share prices and the major capex

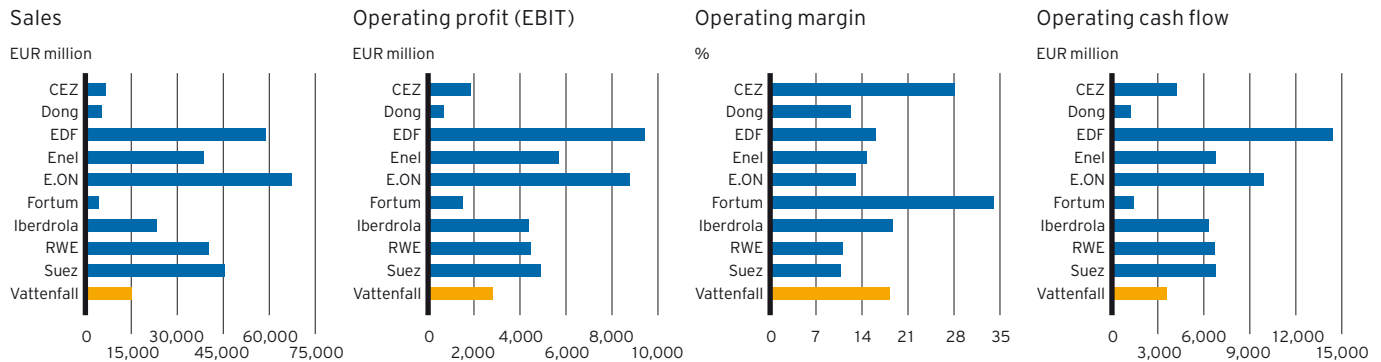
programmes, shareholders continue to put high demands on energy utilities, both in the form of more generous dividends and share buybacks. E.ON, EDF, RWE, Fortum and Vattenfall have all indicated that they will be paying higher dividends. CEZ, E.ON, Fortum, National Grid, RWE,

GDF and Suez have all carried out or indicated that they will be conducting substantial share buybacks.

Comparison of selected European utilities

The tables below provide a comparison of selected Euro-

Comparison of selected European energy utilities (Data as per 30 September 2007, unless indicated otherwise)



	CEZ	Dong	EDF	Enel	E.ON
Country	Czech Republic	Denmark	France	Italy	Germany
Listing info	Listed (67.6%-owned by Czech state)	Unlisted (73%-owned by Danish state)	Listed in 2005 (85%-owned by French state)	Listed (32.2%-owned by Italian state)	Listed (Free float: 92.6%)
Electricity sales 2006, TWh	62 (generation)	6	628	260 (incl. retailers)	404 (of which, Europe 367)
Number of customers, millions	Electricity: 6.8	Electricity: 1.2 Gas: 0.3	Electricity: 40 (of which, Europe 37) Gas: 2.2	Electricity: 32 Gas: 2	Electricity: 24 Gas: 8
Primary products	Electricity, heat	Gas, oil, electricity	Electricity, gas	Electricity, gas	Electricity, gas (upstream, downstream)
Primary markets	Czech Republic, Bulgaria, Romania, Poland	Denmark, (Sweden, Germany, Netherlands)	France, UK, Germany, Italy, Eastern Europe (Asia, USA and Africa)	Italy (Spain, France, Slovakia, Bulgaria, Romania)	Central and Eastern Europe, UK, Nordic countries, Italy, Spain
Strategies	<ul style="list-style-type: none"> To become a leading energy company in central and southeastern Europe Take advantage of synergies through vertical integration of operations Upgrade existing generation assets and build new plants Reduce CO₂ emissions 	<ul style="list-style-type: none"> Integrate and consolidate newly acquired units Secure gas supply Expand electricity operations Integrate gas and electricity International growth (Sweden, Germany, Netherlands) 	<ul style="list-style-type: none"> Strengthen position in Western and Central Europe Divest non-core businesses (e.g., Brazilian assets) Improve productivity and cut costs Invest in gas in order to be able to offer customers both electricity and gas 	<ul style="list-style-type: none"> To be a leading player in Europe Focus on core energy business in Italy and Spain and on integrating its international assets Complementary acquisitions in renewable energy and in Russia. 	<ul style="list-style-type: none"> Integrate and strengthen electricity and gas operations Expand in gas production Increase share of renewable energy Reduce CO₂ emissions Focus on new markets, such as south-eastern Europe, Russia and Turkey

Last 12-month values as per 30 September 2007 for all companies except EDF and Suez, which are reported as per 30 June 2007.

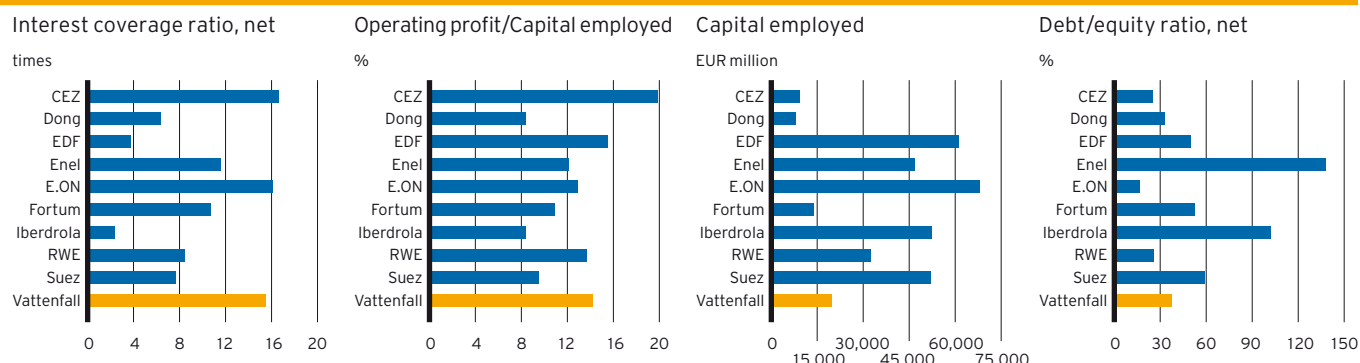
Sources:

Graph values: Barclay's Capital.

Electricity sales, number of customers, primary products, primary markets and strategies: Vattenfall's research, various analysts' reports and companies' annual reports, interim reports and websites.

pean utilities with respect to size, operations, strategies and a number of key ratios. The presentation is not exhaustive, nor are the various companies ranked in any way. Compared with the corresponding comparison in Vattenfall's 2006 Annual Report, the companies have generally shown

a stable trend. However, some of them, such as E.ON and Enel, have increased their debt leverage.



Fortum	Iberdrola	RWE	Suez	Vattenfall
Finland	Spain	Germany	France	Sweden
Listed (50.8%-owned by Finnish state)	Listed (Free float: 82%)	Listed (Free float: 89%)	Listed (Free float 86%)	Unlisted (100%-owned by Swedish state)
62	127 (of which, Europe 98)	232 (excl. trading)	266 (of which, Europe 156)	191 (210 incl. deliveries to minority owners)
Electricity: 1.6 (incl. network customers)	Electricity: 18.4 (of which, Europe 12) Gas: 0.2	Electricity: 20 Gas: 10	Electricity: 5.7 (Europe) Gas: 2.3 (Europe)	Electricity: 5.7 (incl. network customers)
Electricity, heat	Electricity, gas	Electricity, gas (Water operations are being divested)	Electricity, gas, water and waste	Electricity, heat
Nordic countries, Baltic countries, Russia, Poland	Spain, UK, Latin America, USA	Germany, UK, Central and Eastern Europe	France, Benelux, North- and South America	Nordic countries, Germany, Poland
<ul style="list-style-type: none"> To become a leading power and heat company in the Nordic region through profitable growth Expand in Nordic countries, Baltic countries, Poland and Russia 	<ul style="list-style-type: none"> Maintain world-leading position in renewable energy Expand in North America Increase efficiency and capitalise on synergies Increase quality of electricity distribution 	<ul style="list-style-type: none"> Focus on electricity and gas Increase share of renewable energy and reduce CO₂ emissions Increase own gas production Expand in Germany and the UK as well as in south-eastern Europe and Russia 	<ul style="list-style-type: none"> Complete merger with Gaz de France Divest Suez Environment in accordance with EU requirement To focus on and grow its energy business 	<ul style="list-style-type: none"> To be a leading European energy company. Five strategic ambitions: <ul style="list-style-type: none"> Number One for the Customer Number One for the Environment Profitable growth in neighbouring areas through M&As and new production facilities Benchmark for the Industry Employer of Choice

Definitions

Capital employed = Interest-bearing liabilities + equity including minority interests. Operative cash flow = FFO +/- change in working capital.

Free float = The proportion of a company's shares that are freely available for trading.

NUCLEAR – INVESTMENTS IN SAFETY AND UPGRADES

Due to low climate impact, interest in nuclear power is rising around the world. During the year Vattenfall continued to upgrade its nuclear power plants and also launched an action programme to further strengthen safety at its nuclear facilities.

Nuclear power is a vital part of efforts in a growing number of countries to reduce climate impact and achieve sustainable development. Nuclear power has low production costs, a high level of safety and is virtually free from emissions that contribute to acidification and climate impact. Vattenfall is striving for and has made it a demand that environmental impact must be low in all parts of the nuclear fuel cycle.

Nuclear power accounts for roughly 16% of the world's electricity supply. In Sweden nuclear power accounts for about half of all electricity that is used in the country, and in Germany it accounts for about 27%.

Vattenfall is a part-owner of five nuclear power plants in Sweden and Germany with ten reactors, which together account for roughly a third of the company's electricity generation.

Greater investment in nuclear power

New nuclear power plants are being built in many countries around the world. During the last 20 years, expansion has been concentrated in Southeast Asia (China, Taiwan, Japan, South Korea and India). Preparations have been under way in recent years for extensive new construction also in the West. In the US, the first reactor orders in almost 30 years are expected soon. In Olkiluoto, Finland and in France new, large reactors are under construction, and similar plans are in progress in Romania. In the UK, the government has announced that it is giving the green light to detail planning for several new nuclear power plants by 2020 in order to replace older nuclear facilities with modern, more efficient plants. This decision has been motivated by the need for safe energy supply and reduced emissions of carbon dioxide.

In Sweden, major investments are being made to upgrade and extend lifetime of existing plants. In 2007 Vattenfall invested SEK 3 billion in safety upgrades, modernisation and capacity increases at the Forsmark and Ringhals nuclear power plants. The capacity increases made during the year amounted to approximately 124 MW.

In the years ahead, continued capacity increases are planned primarily in safety upgrades, capacity increases and continued modernisation. Vattenfall plans to invest approximately SEK 40 billion in its Swedish nuclear power facilities in the next 20 years.

Safety is paramount

At nuclear power plants, safety goes before everything else.

High safety is a prerequisite for operations as well as for stable energy generation, and it is also the best guarantee for good profitability.

All safety work is aimed at ensuring that operations are conducted with reassuring margins within the framework set by the Company, industry and supervisory authorities mainly to prevent incidents, accidents and radioactive leaks within the facilities or in the ambient environment. This involves a balanced interplay of competent employees, clear leadership and organisational structures, and robust facilities with multiple and diversified safety systems. Vattenfall conducts active safety work with clear safety management and is focusing at the same time on improving already advanced technology and safety functions at its nuclear power plants.

Work is currently being conducted at Vattenfall to regain a leading position in nuclear power safety. Following an incident at the Forsmark nuclear power plant in summer 2006, when a short-circuit in a switchyard outside the plant caused a reactor to be scrammed, as the principal owner Vattenfall was criticised. The event did not lead to any damage to the affected reactor, nor was there any risk for a leak. However, shortcomings were revealed in safety work and in the plant's safety culture, and a comprehensive action programme was put in motion.

In June 2007 Vattenfall's two German nuclear power plants, in Brunsbüttel and Krümmel, were scrammed on the same day independently of each other. In Brunsbüttel the shutdown was caused by a short-circuit in a switchyard outside the plant. In Krümmel the scram was caused by a fire in a transformer outside of the reactor building. Safety was never at risk. However, the events unleashed a heated debate about the future of nuclear power in Germany and the confidence for Vattenfall was questioned.

Newly appointed Chief Nuclear Officer

In the wake of these events, Vattenfall has conducted a thorough review of safety work at its nuclear power plants in consultation with the authorities concerned. Internationally renowned experts have also conducted an in-depth analysis of the company's nuclear safety work. Based on the analyses that have been conducted, a comprehensive action programme is now under way which is aimed at strengthening the safety culture at Vattenfall's nuclear power plants and more clearly outlining safety management within the Group.

Vattenfall's nuclear power plants



In 2007 Vattenfall invested SEK 3 billion in safety upgrades, modernisation and capacity-raising measures at its Forsmark and Ringhals nuclear power plants. Capacity increases during the year amounted to approximately 124 MW.

Vattenfall's nuclear power plants	Number of reactors	Ownership, %	Installed capacity, MW
Ringhals	4	70.44	3,690
Forsmark	3	66.00	3,170
Brunsbüttel	1	67.67	771
Krümmel	1	50.00	1,346
Brokdorf	1	20.00	1,370

Among other things, Vattenfall has appointed a Chief Nuclear Officer (CNO), who reports directly to the Group CEO on matters concerning nuclear safety and is the Executive Group Management's nuclear power expert. The nuclear power companies still have full operative responsibility for running their nuclear reactors. In addition, Vattenfall has set up a nuclear safety council chaired by the Group CEO. Moreover, Vattenfall will be participating more actively in international nuclear safety organisations in order to ensure that collective global experience is put to use in the Group's safety work.

Swedish site study in final stages

The Swedish Nuclear Fuel and Waste Management Company (Svensk Kärnbränslehantering AB – SKB) is responsible for managing and disposing of radioactive waste from Sweden's nuclear power plants and ensuring it is stored in an environmentally safe manner. SKB is currently working on finding a site for final storage of spent nuclear fuel in Sweden's bedrock, with site surveys in Oskarshamn and Forsmark.

Spent nuclear fuel is currently being stored in SKB's central interim storage facility for spent nuclear fuel in Os-

karshamn, where it is submerged in large water pools that cool and shield radiation for a period of approximately 30 years.

Building a safe repository requires good knowledge about the bedrock at the site, a long-term safe method, and control during every step in the storage process. The method that SKB has decided to use is based on three protective barriers – encapsulation, buffering and bedrock. Spent nuclear fuel is encapsulated in copper canisters and stored in bedrock at a depth of between 400 and 700 metres. According to plans, SKB will choose a site in late 2008/early 2009, and in 2009 it will submit an application to build a final repository for spent nuclear fuel. The repository is expected to be ready for use in 2018¹.

In Germany, studies have been conducted on the possibility of using the salt mine in Gorleben as a final repository for highly radioactive waste, however, no further studies have been done since 2000. The German ministry for the environment intends to look into alternatives to Gorleben, and in 2008 it will be setting new safety requirements for final storage.

1) Source: SKB.

GREATER INVESTMENT IN LOW CO₂ EMITTING GENERATION

Vattenfall is continuing its work on sustainable development and is prioritising investments in low CO₂ emitting generation and energy efficiency improvement. In 2007 the Lillgrund wind farm came on stream, with 48 turbines and total installed capacity of 110 MW.

Vattenfall aspires to take a leading role in renewable energy generation where the ecological, technical and commercial conditions exist. By positioning itself at the forefront and driving development, Vattenfall can contribute to ecologically and economically sustainable development, which is

in line with the company's strategic ambition to be Number One for the Environment.

Renewable energy sources are growing increasingly important against the backdrop of the major climate problems facing the world and the fact that fossil fuels are becoming more expensive as their supply decreases. Thus far, however, renewable energy accounts for a small share of total energy generation.

According to the International Energy Agency (IEA), in 2005 approximately 18% of the world's total electricity generation was based on renewable energy sources, of which hydro power accounted for most – approximately 90%. Most of the world's total electricity generation is based on fossil fuels (oil, coal and gas), which accounted for nearly two-thirds of total electricity generation in 2005, while nuclear power accounted for about 16%.

The EU's target is that 20% of total energy supply will come from renewable energy sources by 2020, compared with today's level of slightly more than 8%. For electricity generation, the target is 21% by 2010, compared with today's figure of 16%¹. To increase the percentage of electricity from renewable sources, many European countries have adopted economic support systems designed to favour renewable electricity generation (read more on page 25).

In the Nordic countries, Vattenfall has a comparatively high share of renewable energy sources in its mix of electricity, due to a high share of hydro power. Of heat production, approximately 12% is based on biofuels.

Major capital expenditures

In 2007 Vattenfall spent SEK 1,015 million (761) on research and development (R&D), of which SEK 77 million (36) pertained to renewable energy. Vattenfall participates in national and European research programmes in areas such as wave power, hydrogen gas, black liquor gasification, fuel cells, geothermal power and solar energy (for more information on R&D, see pages 65–66).

In 2007 Vattenfall invested SEK 1,172 billion in renewable energy. Vattenfall's board has decided that the Company should focus on projects that will make it possible for Vattenfall's renewable electricity generation in the Nordic countries to increase by approximately 10 TWh by 2016 compared with 2002 levels. The goal of these investments

Renewable energy generation – Nordic countries

Key ratios, energy generation in the Nordic countries that qualifies for electricity certificates, 2007¹

	Wind	Hydro ²	Heat	Total
Operating profit, SEK million	165.6	133.8	179.3	478.7
Investments, SEK million	1,011.7	71.5	1,271.3	2,354.5
Property, plant and equipment ³ , SEK million	5,993.2	287.3	4,333.7	10,614.3
Return on property, plant and equipment, %	2.8	46.6	4.1	4.5

1) Pertains to electricity and heat generation in the Nordic countries according to the official rules that apply for electricity certificates in Sweden.

2) Small-scale hydro power + increases in capacity.

3) Yearly averages. The values for 2006 have been adjusted compared with previously published information.

Vattenfall's renewable energy generation in the Nordic countries, GWh

	2002	2003	2004	2005	2006	2007
Electricity						
Hydro power ¹	34,309	25,625	30,111	36,155	30,626	33,246
Hydro power ^{2,3,4}	156	150	211	214	250	339
Wind power ^{2,3}	51	54	58	46	534	1,200
Biofuels ^{2,3}	525	503	497	547	384	355
Total electricity	35,041	26,332	30,877	36,962	31,794	35,140
Heat						
Biofuels	4,020	3,844	4,506	4,577	4,138	4,099

Vattenfall's renewable energy generation in Sweden, GWh

	2002	2003	2004	2005	2006	2007
Electricity						
Hydro power ¹	33,996	25,324	29,618	35,801	30,306	32,787
Hydro power ^{2,4}	156	150	211	214	250	339
Wind power ²	46	47	52	46	75	162
Biofuels ²	375	353	347	290	263	164
Total electricity	34,573	25,874	30,228	36,351	30,894	33,452
Heat						
Biofuels	3,480	3,144	3,791	3,869	3,452	3,095

1) Hydro power that does not qualify for electricity certificates.

2) Generation that qualifies for electricity certificates.

3) Electricity generation that qualifies for electricity certificates pertains to electricity generation in the Nordic countries that according to the official rules apply for electricity certificates in Sweden.

4) Small-scale hydro power + increases in capacity.

For information on Vattenfall's total electricity and heat generation volumes, see pages 124 and 125.

1) Source: Eurelectric 2006.

Wind power on the rise at Vattenfall



The Lillgrund wind farm.

Vattenfall's wind power generation increased by 117% during the year, to 1.3 TWh (0.6). In late 2007 Vattenfall completed Sweden's largest wind farm and the world's third-largest offshore wind farm – Lillgrund – located in the Oresund Strait between Malmö and Copenhagen. The plant comprises 48 wind power turbines with a combined capacity of 110 MW and a generation output equivalent to the electricity consumption of 60,000 Swedish homes. Vattenfall has also begun co-operating with the Swedish forest company Sveaskog, with plans to erect 550 new wind power turbines in forest lands in southern Sweden, with combined capacity of 1,500 MW.

	Installed capacity, wind power 2007, MW	Wind power generation 2007, TWh
Nordic countries	620	1.20
Germany	14	0.03
Poland	30	0.10

is to achieve 8 TWh of electricity from wind power, corresponding to the electricity needs of 1.6 million homes.

Strong growth in wind power

At year-end 2007 Vattenfall had a total of 664 MW of installed wind power. Most of the plants are in Denmark and Sweden, including the world's largest offshore wind farm at Horns Rev off the Danish coast of Esbjerg, which is 60%-owned by Vattenfall.

In 2007 the Lillgrund wind farm off the coast of Malmö was commissioned, with 48 turbines and total installed capacity of 110 MW.

Future investments include planning work on the Taggen and Trolleboda wind farms south of Gotland, with just under 100 new turbines and a total capacity of 280 MW. Pre-planning and site surveying at Kriegers Flak in the southern Baltic Sea continued in 2007. Approximately 130 turbines there will generate enough electricity to meet the needs of 400,000 homes.

Vattenfall is also working intensively on identifying suitable land-based wind power sites in Sweden and Denmark. In Sweden, leases are being signed with land owners at interesting land areas with favourable wind conditions. This includes property owned by private persons as well as extensive agreements with large companies. For example, Vattenfall and Sveaskog have initiated co-operation on the largest wind power investment ever in Sweden. Vattenfall's aim is to install 550 wind power plants with a combined capacity

of 1,500 MW, which would generate enough electricity for 800,000 homes. Vattenfall is also looking into opportunities to build wind power plants on its own property, such as in Forsmark and Ringhals. In Denmark, work is under way to re-power older wind power plants with larger, more efficient turbines. Thirty-one new turbines with combined capacity of 100 MW will replace 120 older turbines with combined capacity of approximately 42 MW.

At the Borkum site, off Germany's North Sea coast, Vattenfall is participating in a development and demonstration project ("Alpha Ventus") concerning the next generation of wind power plants, where a total of 12 turbines each with a capacity of 5 MW will be erected. This is to be compared with the 2.5 MW turbines that are currently being built today commercially. Upscaling turbine size is essential for wind power to be profitable and account for a larger share of total electricity generation.

Major user of biofuels

Vattenfall has some 30 biofuel-fired heat and combined heat and power (CHP) plants and is one of the world's largest buyers and users of biofuel. The goal is to increase the use of biofuels as far as possible, both as a principle fuel source and as part of a mix of fuels.

At Midtfynsværket in Odense, Denmark, a hay-burning CHP boiler is currently being built of 35 MW electricity and 84 MW heat capacity. And at Amagerværket, in Copenhagen, a coal-fired CHP station is being converted to

accommodate hay. Through these projects, Vattenfall is further increasing the share of biofuels in both its mix of electricity and heat generation.

At Vattenfall's German and Polish operation, attempts are being made to enable dual burning of biofuels and coal in coal-fired plants. For several years, a few German plants have been employing dual burning technology of lignite and digested sludge – another form of biofuel.

In northern Europe there is a shortage of biofuels, and the market price is steered by gas and oil prices. Consequently, in Poland Vattenfall has decided to establish a position in the domestic biofuels market in order to reduce risk and be active throughout the value chain.

Continuous development and optimisation is also being done at existing biofuel-based plants in an effort to boost efficiency, reduce corrosion damage and further reduce emissions of nitrous oxides, for example. In Sweden and Finland, plants are being continuously upgraded to increase the share of biofuel-based generation and reduce the share of fossil-based generation. For example, in Finland, SEK 277 million is being invested to increase the use of biofuels at the Vanaja power plant in Tavastehus.

Capacity increases and new plants

Work on boosting the capacity of existing nuclear power plants and hydro power plants continues. These investments are key parts of Vattenfall's ambition to increase the share of renewable as well as CO₂-neutral electricity generation. In 2007, SEK 795 million was invested in capacity improvement measures at Vattenfall's nuclear power plants.

In addition, in Storuman municipality, Vattenfall plans to build a new hydro power plant with an installed capacity of 4.6 MW. This will be Vattenfall's first new build hydro power plant in more than 15 years.

Major capacity-boosting measures are also being taken in coal-fired generation. In Germany, construction began in 2007 of a lignite-fired power station in Boxberg and a coal-fired CHP plant in Hamburg/Moorburg. These new power plants have considerably higher efficiency levels and environmental performance than the plants that they are replacing. When the Moorburg CHP plant is commissioned and replaces older generation facilities, CO₂ emissions from German power plants will reduce by 2.4 million tonnes a year.

Lignite-fired power plants have major flows with low-grade waste heat that can be utilised. By burning dried lignite instead of burning it with a moisture content of approximately 50%, the electricity efficiency can be increased from 43% today to nearly 50%. The gains that can be achieved in energy efficiency improvement and lower CO₂ emissions are significant. Vattenfall has been working for many years on projects to dry lignite. It is expected that it will be possible to demonstrate the technique on full scale within ten years.

In 2000 Vattenfall started a project to develop a technique for separating carbon dioxide from emissions at coal-fired power plants and storing it permanently in bedrock. In

2008 Vattenfall will be commissioning the world's first pilot CCS (carbon capture and storage) plant employing oxyfuel technology at its Schwarze Pumpe facility in Germany. The goal is to develop commercial plants by 2020.

Improving energy efficiency increasingly important

Improving energy efficiency plays a vital part in reducing CO₂ emissions and contributing to sustainable development. The EU's target is to improve the efficiency of energy use in the Member States by 20% by 2020. Measures to achieve this include energy certificates for buildings, subsidising energy-efficient technologies, and providing more targeted information. Moreover, the Member States have been ordered to implement national action plans for improving their energy efficiency.

Vattenfall is working continuously on upgrading and boosting the efficiency of its own facilities and on replacing older plants with new, more modern and more energy-efficient plants. In addition, Vattenfall offers advice on energy efficiency-improvement measures to the general public as well as to its retail and corporate customers.

Tailor-made solutions for major customers

Vattenfall has long been working to help its corporate customers customise solutions for energy and process efficiency improvements. Some 25 major Nordic corporate customers, including Holmen, Höganäs and Korsnäs, have commissioned Vattenfall to review their energy use and improve the efficiency of their manufacturing processes. Vattenfall identifies efficiency-improvement opportunities, evaluates them together with the customers, and makes a list of priority actions.

In Germany, Vattenfall is working together with the city of Berlin to improve the energy efficiency of public buildings. Vattenfall also has long-term co-operation agreements with several hospitals in Berlin to help them lower their energy consumption. One example is the Elisabeth Clinic, which in 2007 received an award for its work on lowering its energy consumption.

Vattenfall is also helping customers devise suitable strategies and risk policies related to electricity purchases. Market pricing benefits customers who can reduce their consumption when electricity rates are high, such as during high load periods or power peaks. This contributes to efficient use of the power system.

More advice for retail customers

Vattenfall has long worked on providing advice to households on how they can improve the efficiency of their energy consumption. Energy-saving tips are provided on websites, in information brochures and by customer service units. In 2007 Vattenfall conducted a campaign in the Nordic countries to increase households' use of low-energy light bulbs. A total of 850,000 retail customers in Sweden and Finland were offered such light bulbs free of charge. In Poland, a similar campaign was carried out towards the end of the year

SUSTAINABLE DEVELOPMENT – OUR TASK AND OUR RESPONSIBILITY

Vattenfall is striving to take an active role in sustainable development in society by developing energy solutions for the future. Such solutions must include consideration for the environment, customers, employees and society in general.

Our sustainability vision

Vattenfall's interpretation of sustainable development is the same as that stated in the Brundtland Report: Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs.

As an energy company, it is our task and our responsibility to provide energy solutions that meet our customers' needs and contribute to sustainable development in society. Such solutions must include consideration for the environment, customers, employees and society in general.

However, a basic prerequisite for being able to invest in future energy systems that meet tomorrow's environmental requirements is that we continuously create economic value in our operations. We have adopted five strategic ambitions to guide us in our work on creating this value (read more on pages 8–19).

These five strategic ambitions can also be seen as an expression of Vattenfall's interpretation of sustainable development – both for society and for the Company. Vattenfall is striving to live up to all five ambitions, and by striking a balance between them, we show our social responsibility. Value creation makes it possible to invest in sustainability; access to energy is a prerequisite for sustainable development.

Our CSR report

Vattenfall publishes an annual Corporate Social Responsibility (CSR) report. In our work on environmental and social responsibility, we put great emphasis on listening and communicating. The CSR report is therefore an important tool for carrying on a dialogue with people in our operating environment on how we are living up to the expectations that are put on us as an energy company and on our role in society.

The report describes the most essential issues in the area of sustainability during the past year and how they are being handled. The most recent report (2006) addresses our climate initiatives, our view on efficient use of biofuels, our focus on production safety, our investments in renewable energy, our recruitment of young talent, and how we are working to achieve integration of the European electricity market.

Since 2003 Vattenfall's CSR report has been based on the guidelines of the Global Reporting Initiative (GRI). These guidelines consist of a set of indicators that measure the company's impact on the environment, society and the economy. The GRI is an independent institution whose mission is to develop and disseminate globally acceptable sustainability reporting guidelines. These guidelines are voluntary and are currently used by approximately 1,000 companies around the world.

For more information, visit www.vattenfall.com/csr.

The Swedish government decided in December 2007 that all state-owned companies in Sweden must produce an annual CSR report in accordance with the GRI's guidelines, starting not later than with the financial year beginning on 1 January 2008. The CSR report is to be published on the respective company's website in connection with the publication of the company's annual report. The CSR report can be either a stand-alone report or be included as part of the annual report.



in which customers were offered low-energy light bulbs at a discounted price.

In August Vattenfall launched an energy conservation page on its website in Germany, where retail customers – via a virtual energy savings house – are provided information about how they can reduce their energy use. In November

Vattenfall launched its “Energy Guide” in Sweden, an energy simulator that allows customers to gain an overview of their energy use at home, simulate measures and compare with others. At the end of the year, a similar “Lighting Guide” was introduced, with useful information on how to optimise lighting in the home.

Business Group

NORDIC

Higher generation volumes and improved earnings in the Generation business unit, but lower earnings for Distribution and Heat. Vattenfall's market shares in the retail market have increased along with improved customer satisfaction scores.

Sales and earnings

Net sales rose 16.4%. However, excluding intra-Group transactions, net sales fell by 7.9%. The decline in earnings pertains mainly to the Distribution business unit and is attributable to the major storm "Per" early in the year (SEK 290 million) and a provision for restructuring costs (SEK 160 million). In the Heat business unit, an impairment loss for a combined heat and power plant in Finland was charged against earnings in the amount of SEK 195 million. The Generation business unit improved its earnings due to increased hydro power generation and the contribution made by the combined heat and power assets acquired in Denmark.

Electricity and heat generation

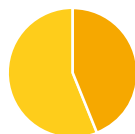
Total electricity generation rose 6.2% to 91.1 TWh. Hydro power generation was up 6.0% to 33.6 TWh, nuclear power generation decreased by 0.8% to 48.8 TWh, fossil-based power generation rose 82.1% to 7.1 TWh, and wind power generation rose 140% to 1.2 TWh. Electricity generation based on bio-fuels was unchanged at 0.4 TWh. The increases in fossil-based power and wind power are mainly attributable to Denmark. Heat production rose 25.9% to 10.7 TWh.

Brief facts

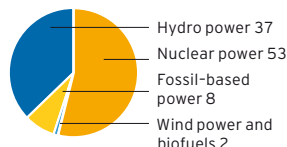
Share of Group's external net sales, 31%



Share of Group's operating profit, 44%

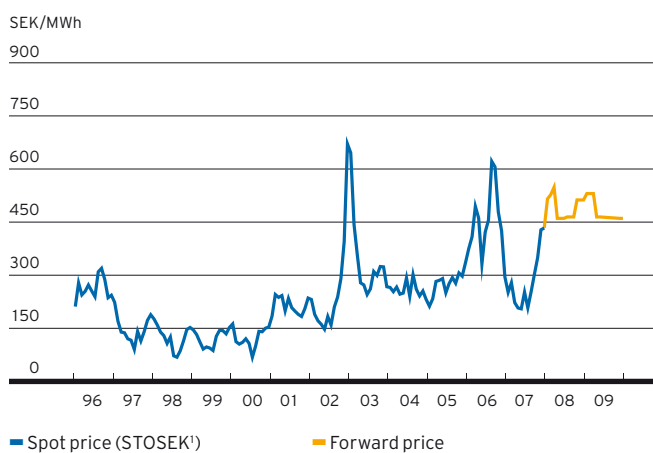


Generation mix, generated electricity, %



Vattenfall is the leading energy company in the Nordic region, with a market share in generation of slightly more than 20%. In Sweden and Finland Vattenfall generates, distributes and sells both electricity and heat, while in Denmark operations are limited to the generation of electricity and heat. Although hydro and nuclear power are the platform of our electricity generation, wind power, biofuels, waste and fossil fuels are also used. Electricity and heat are generated by seven nuclear reactors, approximately one hundred hydro power plants, 500 wind power turbines, ten thermal power plants and five combined heat and power plants. Vattenfall is the fourth largest supplier of heat in the Nordic region, with 50 district heating plants. Vattenfall also conducts consulting and contracting activities, mainly in the energy sector.

Swedish electricity prices 1996–2009, monthly averages



Source: Nord Pool as per 31 December 2007
1) Stockholm price area in SEK

SEK million, unless otherwise indicated

	2007	2006	Change, %
Net sales, SEK million	46,713	40,118	16.4
External net sales ¹ , SEK million	44,429	48,235	-7.9
Operating profit, SEK million	12,591	13,287	-5.2
Operating profit excl. items affecting comparability, SEK million	12,418	13,217	-6.0
Operating margin excl. items affecting comparability, %	26.6	32.9	
Net assets, SEK million	91,122	81,687	11.6
Return on net assets, %	13.7	15.7	
Return on net assets excl. items affecting comparability, %	13.5	15.6	
Installed capacity, electricity, MW	18,966	18,885	4.3
Installed capacity, heat, MW	4,987	5,351	-6.8
Electricity generation, TWh	91.1	85.8	6.2
Heat production, TWh	10.7	8.5	25.9
Number of electricity customers ²	1,034,000	949,000	9.0
Number of network customers	1,302,000	1,294,000	0.6
Average number employees, full-time equivalents	9,489	9,158	3.6

1) Excluding intra-Group transactions.

2) Retail customers and small- and medium-sized companies.

Wholesale price trend

Spot prices on Nord Pool, the Nordic Electricity Exchange, fluctuated widely during the year. Following a sharp price drop during the first eight months of the year, wholesale prices turned up again during the autumn. The average spot price was EUR 27.95/MWh (or SEK 280.2), which was 43% lower than in 2006. Forward prices showed a rising trend during the entire year, mainly due to rising international coal and oil prices. The forward price for the 2008 contract was EUR 50.0/MWh at year-end.

Vattenfall gaining market share in retail market

Our major focus on improved products and attractive subscription terms have generated results. During the year we gained market shares from our competitors and now have more than 1 million electricity customers in the Nordic countries. Our market share among retail customers in Sweden rose from 13% to 15% during the year, and customer satisfaction improved. One of the most highly appreciated products is Vattenfall's "Trygghetsavtalet", a fixed-price, three-year contract with an accompanying renewal right. In the event of a drop in market prices the customer has the right to sign a new three-year contract at a lower price. During the autumn, electricity contracts with source-specified power was launched. This enables customers to choose which form of energy source they want their electricity to come from: wind-, hydro- or nuclear power. During the year, Vattenfall abolished all fixed charges for retail customers for all its electricity contracts.

Long-term electricity contracts with energy-intensive industrial companies

Several major, long-term agreements were signed during the year with Swedish industrial companies, including Billerud, Boliden, Volvo and companies within the Atlas Copco Group. Vattenfall works in close co-operation with electricity-intensive industrial companies, and the contracts signed show that industrial companies have confidence in Vattenfall as a supplier.

Investments

During the year, major investments were made in both power and network operations:

- All 48 wind turbines are now in place at Lillgrund, Sweden's largest wind farm (110 MW). The regulatory process for Lillgrund began in 1997. In 2004 Vattenfall acquired the rights to build the wind farm. Groundbreaking took place in March 2006. Since then, work continued with the lifting of all foundations into place and thereafter installing the wind turbines. The total investment amounted to SEK 1.9 billion.
- Toward the end of the year, Vattenfall and Sveaskog initiated a co-operation arrangement which opens the door for the largest wind power investment ever in Sweden. This may result in 550 wind turbines with a total capacity of 1,500 MW, delivering electricity to 800,000 households.

- Implementation of the major investment programmes in hydro power, nuclear power and the network operations continues. However, some of the work on upgrading the capacity of Vattenfall's nuclear power plants has been delayed due to the incident at the Forsmark nuclear power plant in 2006.

Network regulation

In Sweden, regulation of network tariffs has historically been conducted retroactively (ex post). In 2003, the network performance assessment model was adopted for this ex post assessment. In June 2003 the European Parliament's electricity market directive was adopted, which stipulates that network tariffs are to be set in advance (ex ante). The so-called Energy Network Study presented its initial findings in November 2007. The study proposes that starting in 2012, the distribution operators' revenues should be set in advance for a four-year oversight period. In addition, it has been proposed that the current network performance assessment model, which is based on a fictive electricity network, be replaced by regulations that are based on the distribution operators' actual electricity networks.

For 2003 Vattenfall filed an appeal with the County Administrative Court regarding network tariffs in the former Vattenfall Sveanät. In 2006 the network regulator decided to demand repayment of SEK 236.4 million. It thereafter raised the weighted average cost of capital (WACC) in the model and shortened the depreciation period for electricity meters that are read annually, and based on this measure, the regulator decided to reduce the repayment amount to SEK 23.6 million.

Major focus on nuclear power safety

The incident that took place at the Forsmark nuclear power plant on 25 July 2006 led to a comprehensive review of safety issues and the safety culture in Vattenfall's nuclear power operations.

During the first quarter of 2008 the International Atomic Energy Agency (IAEA) conducted a three-week review of Forsmark's nuclear reactors. After concluding its review, the IAEA noted that Forsmark meets international safety standards and identified a number of suggested improvements, which Forsmark will be adopting. The IAEA's final report will be submitted to the Swedish government within six months.

Other important events

- The allocation of CO₂ emission allowances in the Nordic countries was lower than expected. In Denmark, it is estimated that Vattenfall's deficit will be 1.8 million tonnes, corresponding to an annual cost of approximately SEK 250 million after tax. Vattenfall's electricity generation in Sweden will be affected only marginally, since it is virtually CO₂-free. However, heat production, which is partly based on fossil fuels, will be burdened by additional annual costs of approximately SEK 50 million.
- During the year, the Distribution business unit launched a comprehensive change programme aimed at improving

Challenges for operations in the Nordic countries

- Increase the public's and customers' trust in Vattenfall
- Reduce climate effects caused by Vattenfall's operations
- Grow business in the Nordic region
- Ensure the highest safety in nuclear power and regain very high plant availability
- Implement nuclear investment programme
- Improve public's confidence in the Nordic wholesale electricity market
- Increase the share of renewable generation while meeting profitability requirements
- Increase profitability of the electricity network and sales businesses
- Improve energy efficiency in own operations
- Ensure competence succession ahead of new wave of retirement

Activities based on Vattenfall's five strategic ambitions

Number One for the Customer

- Simplify communication with customers
- Deliver quality customer services in network activities
- Provide electricity contracts to industrial customers and other major consumers in order to support their capacity requirements and at the same time offer stable and competitive electricity prices
- Continue to pursue the current "best electricity prices" strategy in the retail sector
- Offer source-specified electricity (hydro, nuclear, wind)
- Develop new concepts/products in heating operations and implement a new district heating price structure

Number One for the Environment

- Internal abatement map for reducing CO₂ emissions for all business units
- Invest in low CO₂ emitting and renewable generation capacity
- Increase efficiency in own plants
- Provide energy efficiency advice to customers
- Repower Danish wind power assets
- Substitute fossil fuels with biofuels
- Obtain ISO certification for all heating plants

Profitable Growth

- Secure implementation of ongoing investment programmes in nuclear and hydro power
- Continue the expansion of renewable energy, mainly wind power
- Continue to evaluate opportunities to grow the electricity customer base, district heating business and generation capacity through acquisitions

Benchmark for the Industry

- Regain superior nuclear generation availability
- Improve security of fuel supply
- Improve network performance through improved maintenance and reinvestments, and take advantage of synergies between Distribution in Sweden and Distribution in Finland
- Drive continuous improvements in cost efficiency and performance within the framework of the OpEx (Operational Excellence) project
- Finalise divestments of non-core heat assets

Employer of Choice

- Meet future competence needs driven by age structure and technology shifts
- Establish Vattenfall as an even more attractive company to work for
- Secure excellent leadership through first-class management planning and development
- Drive a performance culture and leverage best practices and competence across the Nordic region
- Ensure retention of knowledge of experienced employees

earnings, increasing customer focus and improving the efficiency of work processes and system support. The change involves a new organisational structure, new work methods and new business locations. The number of established locations is being reduced to three: Stockholm, Luleå and Trollhättan. A total of approximately 250 employees are expected to be affected by this change.

- An energy efficiency-improvement programme has been started in which efficiency improvements will be a natural part of Vattenfall's dialogue with its customers. The Energy Guide, a web-based consumer support system, is included in this programme.

Business Group

GERMANY

Earnings improvement due to high availability in coal-fired plants and better wholesale prices for electricity. Lower market shares in the retail market in Berlin and Hamburg due to stronger competition, rate increases and problems in the nuclear power operations.

Sales and earnings

Net sales rose 10.8%, and operating profit rose 10.5%. The earnings improvement pertains mainly to electricity generation in Germany and is attributable to a high availability at coal-fired plants and better prices achieved on the European Energy Exchange (EEX) in Germany.

Electricity and heat generation

Total electricity generation decreased by 4.5% to 72.8 TWh. Hydro power generation decreased by 8.8% to 3.1 TWh, fossil-based power generation was essentially unchanged at 66.9 TWh, and nuclear power generation fell by 58.3%, to 2.5 TWh, due to the outage at Brunsbüttel. Biofuel- and waste-based generation amounted to 0.3 TWh. Heat production was down 4.5%, totalling 14.8 TWh.

Wholesale price trend

Following a decline at the start of the year, spot prices on EEX were relatively steady during the summer and thereafter rose sharply toward the end of the year. However, in

December they fell again slightly. The average spot price (base load) was EUR 38.0/MWh, which was 25% lower than in 2006. Forward prices showed a rising trend during the entire year, mainly due to rising international coal and oil prices. The forward price for the 2008 contract closed the year at EUR 61.3/MWh.

Market conditions and energy policies

Competition in the German electricity market, particularly in the retail electricity sector, has increased dramatically. Apart from a number of new players that are using discount sales strategies (including Nuon, TelDaFax and StromIstBillig), a number of niche players, such as Lichtblick and Naturstrom, and new Internet-based subsidiaries of the big German suppliers (E.ON's "E wie Einfach" and RWE's Eprimo), are making nationwide offers and pursuing aggressive sales strategies. As a combined result of increased customer switching overall and Vattenfall's bruised reputation caused by broad media coverage of the rate increase announcement in June 2007 and the outages at

Brief facts

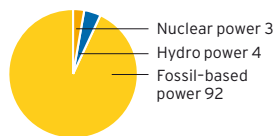
Share of Group's external net sales, 54%



Share of Group's operating profit, 54%



Generation mix, generated electricity, %¹



1) Incl. 0.4% of wind power, biofuels and waste

In Germany, Vattenfall generates, transmits, distributes and sells electricity and heat and is currently the country's third-largest generator of electricity and the largest supplier of district heat. Operations comprise open-cast lignite mines in Lausitz, power plants in eastern and northern Germany, the transmission network in eastern Germany, and local networks in Berlin, Hamburg and Mecklenburg Vorpommern. Vattenfall operates several combined heat and power plants and thermal power plants, four large lignite-fired power plants, two nuclear plants, a hard coal-fired power plant, eight pumped storage power plants, and five gas turbine power plants. Vattenfall also provides a wide offering of energy-related services.

SEK million, unless otherwise indicated

	2007	2006	Change, %
Net sales, SEK million	112,460	101,538	10.8
External net sales ¹ , SEK million	77,471	69,905	10.8
Operating profit, SEK million	15,338	13,884	10.5
Operating profit excl. items affecting comparability, SEK million	15,440	13,711	12.6
Operating margin excl. items affecting comparability, %	13.7	13.5	
Net assets, SEK million	67,849	61,818	9.8
Return on net assets, %	20.9	19.5	
Return on net assets excl. items affecting comparability, %	21.0	19.2	
Installed capacity, electricity, MW	15,256	15,221	0.2
Installed capacity, heat, MW	8,485	8,612	-1.5
Electricity generation, TWh	72.8	76.2	-4.5
Heat production, TWh	14.8	15.5	-4.5
Number of electricity customers ²	2,619,000	2,863,000	-8.5
Number of network customers	3,310,000	3,285,000	0.8
Average number employees, full-time equivalents	19,656	19,821	0.8

1) Excluding intra-Group transactions.

2) Retail customers and small- and medium-sized companies.

the Krümmel and Brunsbüttel nuclear power plants, Vattenfall lost approximately 250,000 customers in Berlin and Hamburg in 2007. Vattenfall's market share has thus fallen from roughly 85% in Berlin and 90% in Hamburg, to 79% and 83%, respectively.

Harsher network regulation has led to lower tariffs for network operators, which means that necessary network investments will no longer meet market-based return requirements. The EU has proposed ownership unbundling of transmission networks. Even if such a step is less likely to materialise, today's transmission owners will have substantially less influence over the grid – leading to higher investment risk for these assets. In November 2007 a new incentive regulation (“Anreizregulierungsverordnung”) entered into force. As of 2009 it will lead to cost calculations based on the costs of a comparable and most efficient network operator.

With regard to the existing nuclear phase-out law in Germany, there has been no positive development for Vattenfall when it comes to allowing longer lifetimes.

There is currently intense political pressure on energy utilities, and regulatory interventions cannot be ruled out. The public debate on appropriate energy prices and returns of suppliers gained even more momentum in 2007. However, legal actions to date have been concentrated on the enhancement of renewable energy sources and competition law. In late 2007, the highly debated changes in the German Competition and Cartel law (GWB) entered into force. These changes aim for a significant tightening of the rules on misuse of a dominant market position for electricity suppliers. It is still too early to determine the effects of this, however, it could lead to “cost plus” prices for some suppliers instead of market based pricing. Depending on how the law is interpreted and applied, disturbances in the market mechanisms cannot be ruled out, which would likely add to a negative climate for investments in energy infrastructure.

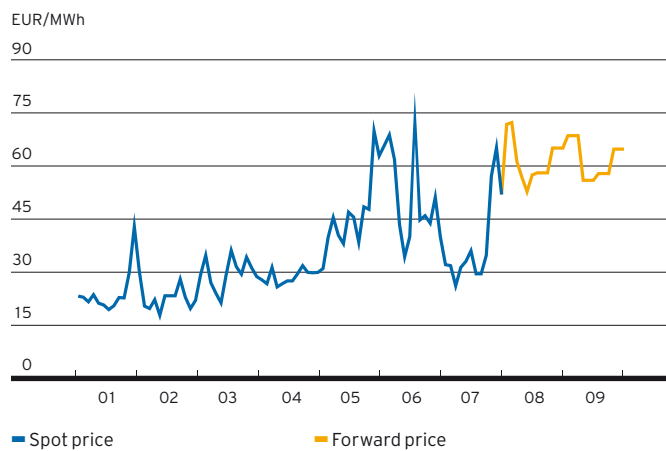
Through the revision of the law on combined heat and power production, the German government is aiming to achieve a doubling of the CHP-share of electricity generation, to 25%, by 2020. This law is likely to promote growth in the heat sector. The envisaged law on renewable energy (EEG, Erneuerbare Energien Gesetz) will further enhance the extension of the renewable share in German electricity generation. The target for 2025 is 25%–30%, compared with the current share of 13%. The law is also aimed at achieving better market integration of renewable energy. Both laws are intended to enter into force in January 2009.

Investments

The following major investment projects are ongoing or planned:

- In May 2006 work began on construction of Vattenfall's 30 MW pilot lignite-fired plant employing CCS technology, i.e., capture, sequestration and storage of carbon dioxide. This is the first plant of its kind in the world and is expected to be commissioned in late summer 2008. The next step will

German electricity prices 2001–2009, monthly averages



Source: European Energy Exchange (EEX) as per 31 December 2007.

- be to build a large demonstration plant of about 300 MW.
- The Boxberg lignite-fired power plant in Saxony is being enlarged with a new 675 MW unit (investment sum SEK 8.3 billion). In addition, mining activity at the adjacent Reichwalde open cast lignite mine will be resumed.
- In Hamburg–Moorburg, construction of a 1,640 MW coal-fired combined heat and power plant has been started (investment sum SEK 18.7 billion). A building permit was granted in December 2007.
- In Rostock and Rüdersdorf, waste incineration plants of 20 and 30 MW, respectively, are being built.
- Further organic growth opportunities are being evaluated in the Berlin area.
- Together with external partners, Vattenfall is preparing the Alpha Ventus offshore wind power test field to be commissioned in 2008/2009. In addition, Vattenfall is currently evaluating the technical and financial conditions to build offshore wind farms, such as the Dan Tysk development project, which is planned to be commissioned in 2011.
- The transmission grid is being enhanced: the North Line project is planned to be finalised in 2008, and the South Line project is estimated to be finalised in 2011.

Lower allocation of CO₂ allowances

The German national allocation plan for the second trading period (2008–2012) was decided on during the autumn. For Germany, the maximum permissible emission volumes will be considerably lower than previously – 453 million tonnes/year compared with 499 million tonnes/year during the first trading period. Of the allocated emission allowances, 40 million tonnes (8.8%) will be auctioned out. During the first trading period, all allocations were made free of charge to the recipients. In Germany, Vattenfall is expected to have an emission allowance deficit of approximately 28–33 million tonnes/year. Assuming a price of EUR 20/tonne, this will give rise to a higher annual net cost for Vattenfall of approximately EUR 400–500 million (SEK 3.8–4.7 billion). This does not include changes in wholesale electricity prices.

Challenges for operations in Germany

- Reduce CO₂ emissions
- Increase renewable energy share
- Successfully start the operations of Alpha Ventus, Germany's first offshore wind farm
- Implement CCS technology and secure CO₂ storage capacity
- Stabilise the retail customer base in Berlin and Hamburg, and acquire new customers nationwide
- Continue the successful start of gas retail activities
- Enhance and deepen employee commitment

Activities based on Vattenfall's five strategic ambitions

Number One for the Customer

- Conduct an in-depth dialogue with the general public to restore trust in Vattenfall
- Launch dual-fuel offer in Hamburg (gas product combined with electricity)
- Internet-based offers (Vattenfall Easy)
- Test the feasibility of launching electricity products in Germany that have been successful for Vattenfall in Sweden
- Expand energy efficiency advice and services to all customer groups
- Test installation of smart meters in Berlin and Hamburg
- Integrate Customer Care Centres in Berlin and Hamburg

Number One for the Environment

- Commission the Schwarze Pumpe CCS pilot plant
- Construction of a 300 MW CCS demonstration plant incl. CO₂ storage options
- Increase plant efficiency through reinvestment and technical improvements
- Internal CO₂ Abatement Map for all business units
- Continue expansion of renewable energy, mainly offshore wind power (Alpha Ventus project)
- Expand Vattenfall's energy efficiency services and provide advice to customers

Profitable Growth

- Ongoing construction work of new power plants – Boxberg 2, Moorburg, Rostock and Rüdersdorf
- Recommissioning of the Reichwalde lignite open cast mine
- Expand district heating networks in Berlin and Hamburg
- Continue expansion of renewable energy, mainly offshore wind power (Alpha Ventus project)
- Nationwide retail electricity sales

Benchmark for the Industry

- Implement a new legal corporate structure aimed at efficient and flexible structures ("NKS" project)
- Restart generation at the Krümmel and Brunsbüttel nuclear plants
- Streamline costs and improve earnings through OpEx (Operational Excellence) project

Employer of Choice

- Continue work on boosting employee commitment
- Ensure knowledge retention of experienced employees
- Develop competence strategy including leadership development, improved education possibilities, job rotation, etc.
- Improve internal communication

Organisational changes

Starting on 1 January 2008, Vattenfall has co-ordinated its German and Polish operations with the formation of the new Business Group Central Europe. As integration of the European power market gains momentum, Vattenfall must anticipate future challenges and adjust its managerial and organisational structures accordingly. The European energy market is evolving from national markets towards regional markets as an interim step towards a fully integrated market; thus it is a natural step to further integrate the German and Polish activities and thereby strengthen Vattenfall's position for future growth in central Europe. Tuomo Hatakka,

previously Head of Business Group Poland, has been appointed Head of the new integrated Business Group Central Europe.

The decision was made in 2007 to implement a new legal subsidiary structure in Germany under the holding of Vattenfall Europe AG. The new legal structure will be harmonised with the Business Unit structure, thereby simplifying and enhancing day-to-day operations, management and follow-up.

A total of 6,500 employees will be transferred to new legal entities within Vattenfall during 2008 and 2009.

Business Group

POLAND

Stable earnings. Successful ventures in the deregulated Polish energy market, but continued unfavourable regulation of network and heat tariffs.

Sales and earnings

Net sales rose 3.7%, and operating profit increased by SEK 1.9%, mainly due to currency effects (weaker SEK vs. PLN). The earnings decline pertains mainly to the Distribution business unit and is attributable to lower network tariffs.

Electricity and heat generation

Higher average temperatures during the year resulted in a decline in heat production. However, electricity generation increased due to higher deliveries to the Polish grid operator, PSE.

Market conditions

Existing rules are currently leading to poor functioning of the

Polish wholesale market, which is providing insufficient incentives to invest in new generation and distribution capacity. However, the new Polish government recently proposed certain changes regarding the spot market, which would result in more market-based marginal pricing. According to the proposal, an intraday market will be introduced on 1 September 2009.

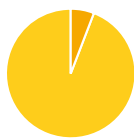
Investments

Electricity demand in Poland is expected to grow by more than 24% by 2020 from the current annual level of 136 TWh. At the same time, 10,000 MW of old capacity is expected to be decommissioned by 2020. Vattenfall's main investment projects at present are:

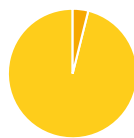
- Replacement of turbines, construction of a new sewage

Brief facts

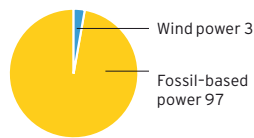
Share of Group's external net sales, 6%



Share of Group's operating profit, 4%

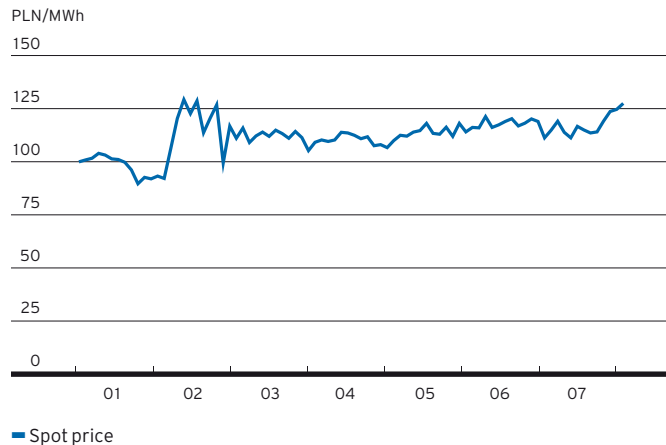


Generation mix, generated electricity, %



Vattenfall has actively participated in the shaping of the Polish energy market since starting activities there in 2000. Heat production and sales account for the bulk of business, and Vattenfall has a market share of approximately 27%. Electricity is also generated to a lesser extent. Electricity and heat generation are primarily based on coal. Vattenfall owns three CHP plants and two heat plants. The Distribution business unit owns and operates electricity networks and distributes electricity. All of Vattenfall's companies have been working under the Vattenfall name in the Polish market since January 2006.

Polish electricity prices 2001–2007, monthly averages



Source: Gielda Energii SA as per 31 December 2007.

SEK million, unless otherwise indicated

	2007	2006	Change, %
Net sales, SEK million	9,796	9,449	3.7
External net sales ¹ , SEK million	9,265	8,981	3.2
Operating profit, SEK million	1,092	1,072	1.9
Operating profit excl. items affecting comparability, SEK million	1,077	942	14.3
Operating margin excl. items affecting comparability, %	11.0	10.0	
Net assets, SEK million	10,865	8,812	23.3
Return on net assets, %	11.4	12.2	
Return on net assets excl. items affecting comparability, %	11.3	10.7	
Installed capacity, electricity, MW	1,008	1,008	–
Installed capacity, heat, MW	4,755	4,986	–4.6
Electricity generation, TWh	3.8	3.3	15.2
Heat production, TWh	10.7	11.2	–4.5
Number of electricity customers ²	1,049,000	1,040,000	0.9
Number of network customers	1,117,000	1,108,000	0.8
Average number employees, full-time equivalents	2,740	2,836	–3.4

1) Excluding intra-Group transactions.

2) Retail customers and small- and medium-sized companies.

Challenges for operations in Poland		
<ul style="list-style-type: none"> • Increase profitability in the electricity network and sales operations • Increase the market share • Handle lower demand for heat, rising fuel prices and higher CO₂ costs 	<ul style="list-style-type: none"> • Handle rising construction costs and higher labour costs • Improve delivery ability and availability in Distribution 	<ul style="list-style-type: none"> • Handle unfavourable and unpredictable tariff regulations in both heating and the electricity network • Increase the share of generation capacity based on renewables
Activities based on Vattenfall's five strategic ambitions		
Number One for the Customer		
<ul style="list-style-type: none"> • Improve the quality of network services through greater maintenance investments and improved processes for connections and switches of electricity suppliers 	<ul style="list-style-type: none"> • Develop Vattenfall's product offering • Implement a new billing system 	<ul style="list-style-type: none"> • Recruit in an effort to support the expansion strategy and the new customer support function
Number One for the Environment		
<ul style="list-style-type: none"> • Implement a biofuel and co-combustion programme at heating plants • Internal abatement map for reducing CO₂ emissions for all business units 	<ul style="list-style-type: none"> • Build a wet flue gas desulphurisation plant at Siekierki and prepare for SO₂ and NO_x reductions at Vattenfall's other production facilities • Implement biofuel combustion programme 	<ul style="list-style-type: none"> • Replace older street lighting in southwest Poland, leading to lower costs and lower CO₂ emissions • Offer advice in energy efficiency improvement
Profitable Growth		
<ul style="list-style-type: none"> • Modernise existing production facilities and improve capacity 	<ul style="list-style-type: none"> • Take advantage of opportunities that may arise when State production assets are privatised 	<ul style="list-style-type: none"> • Offer heat from local systems to customers outside existing district heating networks • Conduct direct marketing activities in all customer segments
Benchmark for the Industry		
<ul style="list-style-type: none"> • Support a new heat tariff based on benchmarking and reference pricing • Create a new power dispatching centre 	<ul style="list-style-type: none"> • Optimise long-term fuel purchasing contracts with Polish coal mines and evaluate purchases from other markets 	<ul style="list-style-type: none"> • Streamline costs and improve earnings within the framework of the OpEx project (Operational Excellence) • Implement a joint service function for IT and other support functions
Employer of Choice		
<ul style="list-style-type: none"> • Implement a programme for senior specialists • Improve competence in middle management and recruitment of young talent 	<ul style="list-style-type: none"> • Address weak points that have emerged in Vattenfall's "My Opinion" survey (employee commitment scores fell in 2007) 	<ul style="list-style-type: none"> • Expand job circulation and evaluate incentive systems • Carry on a dialogue through open meetings

treatment plan and refurbishment of the furnace waste removal system at the Zeran CHP plant.

- Construction of a heat accumulator by 2009 and construction of a wet flue-gas desulphurisation plant by 2013 at the Siekierki CHP plant.
- Refurbishment of the Siekierki CHP plant by 2008.

In addition, new power units are planned at the Siekierki and New Pruszkow plants. Vattenfall aims to build 3,500–4,000 MW of new electricity generation capacity in Poland by 2016. In Distribution, investments are being focused on improving network quality.

In connection with the acquisition of GZE in 2001 and as a supplement to the reinvestment undertaking, Vattenfall has committed itself to ensuring that the company by February 2011 will have invested SEK 3,696 million (PLN 1.4 billion) in growth and SEK 3,696 million in reinvestment of power network assets.

By year-end 2007, growth investments amounted to SEK 166 million (PLN 63 million) and reinvestments amounted to SEK 2,600 million (PLN 985 million).

Lower allocation of CO₂ emission allowances

In 2007 the European Commission reduced the Polish CO₂ National Allocation plan for the second trading period by 17%, from 279 million tonnes/year to 208.5 million tonnes/year. Vattenfall estimates an annual deficit of 0.7–1.0 million tonnes of CO₂ in its CO₂ allowances. Assuming a CO₂ price of EUR 20/tonne, this would increase annual operating expenses by approximately EUR 14–20 million (133–189 MSEK).

Organisational changes

Starting in January 2008, Vattenfall is co-ordinating its German and Polish operations through the establishment of the new Business Group Central Europe. For more information, see page 40.

FOCUS ON COMMITTED EMPLOYEES AND RECRUITMENT FOR THE FUTURE

Vattenfall's success is dependent on good leadership, the right competence and committed employees. The generation shift we are facing presents a major challenge. Vattenfall has the resources and strategies in place to attract, develop and retain top talent.

Challenges

Attract and develop talent

In the years ahead Vattenfall expects it will be increasingly difficult to recruit highly competent employees. A large share of Vattenfall's work force is soon approaching retirement age. Major investment projects and the need to transfer knowledge will also affect recruitment.

Develop leadership

On account of Vattenfall's rapid international expansion, the Group's organisation has become more complex, which is putting new demands on the organisation and its people. Vattenfall needs managers who can manage change and promote integration of operations in the various countries.

Build trust

The public's trust in Vattenfall and other energy companies has declined. Vattenfall's efforts to restore this trust go hand in hand with its ability to attract top talent. A low level of general confidence also affects employee commitment.

Our people are the backbone of our business. To meet the challenges we face in this area and be able to attract and continuously develop competent employees in the Group, Vattenfall's human resources activities are focused on supporting the Company's three main strategies for being an Employer of Choice: professional competence management, excellent leadership and employee commitment.

Competence planning

All business units work according to an annual competence succession process, which is the platform for Vattenfall's competence management. As part of the Group's business planning process, the business units take inventory of their human resources and make sure that they have the competence needed in their activities. In our analysis of any shortcomings, we look at future investment projects, the age structure of employees in the company, and the situation in the job market, among other things.

In 2007 Vattenfall's HR activities contributed to the Company's competence development in several ways. Vattenfall Business Institute has designed special development programmes for certain functions, such as Control, IT and HR. Also during the year, we put great emphasis on our specialist programme. We have also introduced a knowledge transfer process to facilitate the transfer of knowledge

from the current generation of employees to the coming wave. Each Business Group has several programmes in place for young talent. In Vattenfall's Business Group Nordic, the Young Human Power network was established during the year, including approximately 140 participants all younger than 35, to facilitate knowledge-sharing and network contacts between the Group's various units.

Excellent leadership

Effective leadership is crucial for Vattenfall's success. The Group's annual management succession process is a central part of Vattenfall's leadership development, where approximately 1,500 managers and potential managers are evaluated on the basis of performance reviews. This process is part of the work on further developing a performance culture at Vattenfall. It is also the platform for correct succession planning within the Group. Since most of Vattenfall's managers are recruited internally, it is important to develop the Group's managers and young talent.

Vattenfall Management Institute (VMI) is a special forum for management development. VMI offers both basic management training as well as advanced programmes at the strategic level for senior managers.

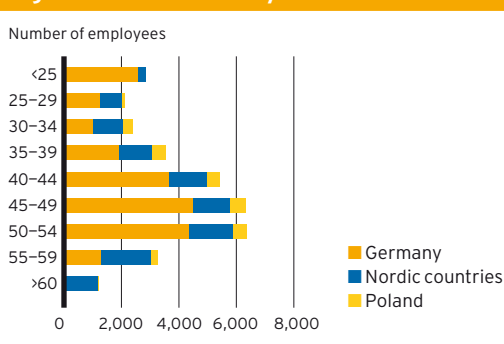
The Vattenfall International Rotation Programme (VIRP) is another example of how Vattenfall supports and brings together talented employees.

Committed employees

Every year Vattenfall conducts its My Opinion employee survey. The results are used as a basis for developing the organisation and strengthening employee commitment.

The 2007 survey indicated that Vattenfall's employees

Age distribution at year-end 2007



The VIRP supports and brings together young, competent employees within the Group



The Vattenfall International Rotation Programme (VIRP) has been established for Young Potentials in all of the countries in which Vattenfall works. The aim is for them to build a network that will facilitate internal mobility, strengthen the collective knowledge, experience the diversity within the Group, and work in international work teams. In 2007 the programme had approximately 200 participants, who switched jobs with each other for one week. A large number of people participate in the programme without any additional administrative burden for the organisation.



are generally satisfied with their work and with their immediate superiors, but that they are more critical with respect to Vattenfall's external image.

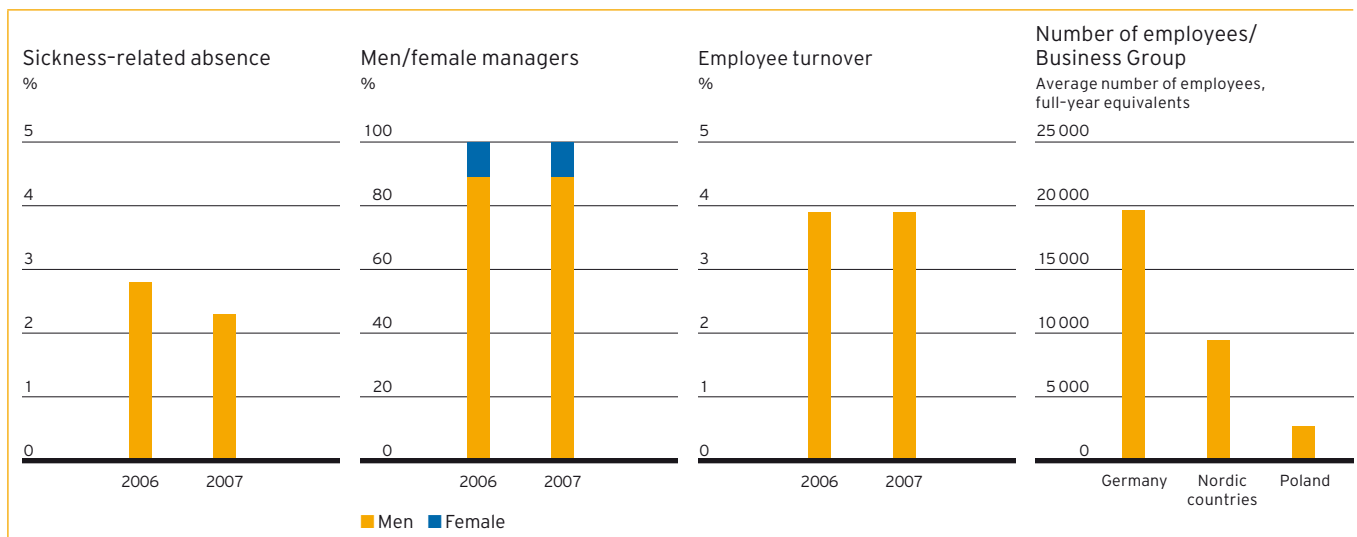
In general, employee commitment scores declined somewhat compared with a year ago. However, the result of the "Goals and feedback" category improved considerably in all countries compared with a year ago, mainly because performance reviews are more frequent than previously, which has led to better contact between managers and their employees.

Salaries and benefits

Attractive salaries and benefits – including performance-based

compensation – are a prerequisite for being able to recruit and retain competent employees. Vattenfall offers competitive salaries and benefits and strives to be perceived as an employer that truly rewards strong performance, focuses on potential and applies flexible solutions that facilitate employees in their work. Accordingly, Vattenfall emphasises individual and differentiated salaries with focus on performance and potential.

The Company has established an international assignment process and a new employee policy, and the number of employees stationed abroad is steadily increasing. Mobility across national borders is highly important if Vattenfall is to operate as a fully international company.



Chairman's comments

VATTENFALL'S VOICE IMPORTANT FOR DEREGULATION OF THE ENERGY MARKET

Dear readers:

As Chairman of Vattenfall I am often asked the question: Why is it good for Sweden that Vattenfall grows and strives to be a leading European energy company?

Let me begin by saying that the question is entirely justified. The most obvious part of my answer is naturally that the best way for a company to create economic value for its owners is to pursue profitable growth. Few people can question that Vattenfall has succeeded with this in recent time. But there is additional value in ensuring that Vattenfall is and continues to be a large and successful international company. Sweden is a relatively sparsely populated country in northern Europe. But in relation to our size and population, we have an impressive number of large international companies. It is due in large part to these large companies, their exports and their operations around the world, that Sweden has become known and that we have been able to make our voice heard.

Most Swedish companies are industrial enterprises, and a significant share of these are process industries based on the preparation and refinement of domestic raw materials. They are thus also large energy consumers, and their success is dependent on reliable electricity supplies at competitive prices. Stable and reliable energy generation at reasonable prices is best achieved through free competition and the far-reaching integration that is currently taking place in Europe's energy market. This line is also being driven by the European Union (EU), and according to the electricity and gas market directive that was issued in 2003, all EU Member States are to have deregulated their electricity and gas markets and opened them for competition not later than 1 July 2007. The reality, however, is somewhat different. A number of European countries still have a long way to go before they have achieved the EU's targets, partly because deregulation decisions have not been followed and partly because investments have not been made to connect the national electricity grids. Hence in large parts of Europe today the conditions do not exist for entirely free competition.

The leading utilities play a central role in the work on achieving a free and deregulated energy market in Europe. As one of Europe's largest energy companies, Vattenfall has taken a clear position as a strong advocate of swift deregulation. The larger Vattenfall's operations are, the stronger our voice will be in these discussions. Sweden thereby also gains greater influence and can more emphatically promote energy policies that ensure security of supply and stable prices, which in the end run benefits Sweden's major, energy-intensive industrial companies.

Strong involvement in the climate issue

Vattenfall has a similar posture with respect to the climate

issue. As a leading player in the European energy market, Vattenfall has attracted a large amount of positive attention, and Vattenfall's CEO, Lars G. Josefsson, has gained a listening ear among key decision-makers both in international business and in the world of politics. Vattenfall's Combat Climate Change (3C) initiative, which was presented in early 2007, has gathered business leaders from around the world and has thus created a strong lobby in the work on broadening the system of emission allowances into a global scale. In parallel with this, in its "Global Climate Impact Abatement Map" study, Vattenfall has compiled a list of actions that are needed around the world to limit emissions of carbon dioxide and other greenhouse gases and thereby be able to limit global warming to a maximum of 2°C.

Through its strong involvement, Vattenfall has been one of many players that have helped push the climate issue up to the top of the international agenda. Vattenfall has thereby played an active part in strengthening Sweden's voice in this important future issue.

To further underscore the gravity of the situation and Vattenfall's resolve regarding the climate issue, in 2007 the Company's management set a new target that Vattenfall will halve its CO₂ emissions by 2030 compared with 1990 levels (which is also the reference level in the Kyoto Protocol). Cutting CO₂ emissions in half by 2030 is a very ambitious goal, and even though Vattenfall has already taken several steps in the right direction, a great deal of work remains as do a number of costly investments before this goal can be achieved. The climate issue is one of several reasons why Vattenfall must maintain a high level of profitability in the coming years as well, in order to be able to manage the major investments that lay ahead, both in generation and in grids.

Investments in renewable energy generation

One such investment is the expansion of our renewable energy generation. At Vattenfall's 2005 AGM, our owner, the Swedish state, made the following amendment to the Articles of Association: "The Company shall, within the framework of businesslike operations, be the leading company in the transition to an ecologically and economically sustainable Swedish energy supply". More precisely, Vattenfall's board set the target that Vattenfall should expand its renewable energy generation by 10 TWh in the Nordic countries. We believe that wind power can make a limited yet important contribution to electricity supply in Sweden. However, for this to become a reality, the permit process for establishing wind power plants must be simplified. Today the construction of wind power plants is being delayed due to very cumbersome permit-granting processes. Repeated appeals have in some

cases resulted in delays of several years, which has made it difficult for wind power to make a significant contribution.

During the past year, Vattenfall's investments in renewable energy were subject to an audit by the National Audit Office. The report published after the audit shows that Vattenfall has taken clear command of these issues and is running its operations in accordance with the amendment made to the Articles of Association in 2005.

In September 2007 the Swedish government decided that all state-owned companies must publish an annual sustainability report which complies with the guidelines of the Global Reporting Initiative (GRI), starting no later than the 2008 financial year. I can certify that Vattenfall has been a leader in this respect. Since 2003 we have been publishing an annual CSR report which discusses the Group's impact on the environment, society and economy, as well as its contribution to sustainable development in society, in accordance with the GRI guidelines.

Growth strategy intact

Vattenfall's vision is to be a leading European energy company. Developments in recent years – not least regarding the rapidly growing importance of the climate issue – have underscored the importance that Vattenfall maintains profitable growth. To concretise our growth strategy, we wrote in our third-quarter interim report: "Growth will take place primarily in geographically close markets in which we can create value. Growth may take place through acquisitions, but also organically through investments in new power and heat generation." In our acquisition considerations, we are studying the UK market in particular, in addition to power and heat generation in other parts of northern Europe. We have also made it clear that in the UK, we are eager to participate in discussions on new nuclear power initiatives, and that we want to participate both as an owner and operator, and in the development of expertise in this area.

Trust and openness

During the year, the Board kept a close eye on the heated debate that flared up in Germany following the outages at the two nuclear power plants, Brunsbüttel and Krümmel. Vattenfall was heavily criticised both by customers and the mass media for its information practices. Self-critically, we must admit that we did not live up to one of our core values in this respect – openness. This crisis in confidence has resulted in tangible losses for Vattenfall, both in the form of a tarnished reputation and lost revenues. Vattenfall has taken a number of measures to raise the quality of its information practices and to restore trust in the Group as a responsible energy company. What happened here shows clearly that having the public's trust and the confidence of customers is decisive for an energy company's success.

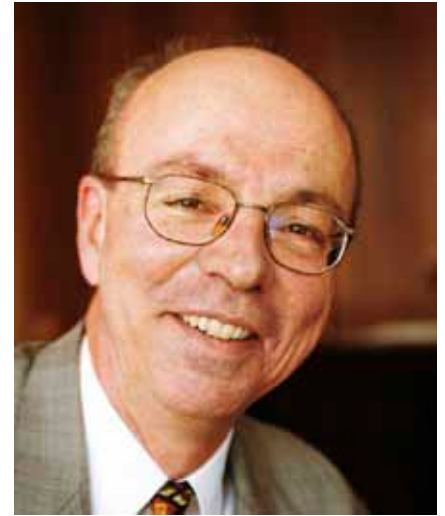
Long-term active ownership

The Swedish government exercises long-term active ownership with value creation as the overall objective. The Ministry of Enterprise, Energy and Communications has a special

division for state ownership which is responsible for governance of state-owned companies. Like other company owners, this state ownership division has a number of governance tools at its disposal and works actively on such matters as the board's composition, auditing, and descriptions of companies' activities.

To clarify the state's view on certain matters and to achieve uniformity among the companies under its administration, the government has adopted guidelines on external financial reporting, terms of employment for senior executives, and employee incentive programmes. In addition, the government has identified certain, special policy issues of major importance, where state-owned companies are to act as a model. These concern such aspects as equal opportunity, the environment, diversity, work environments and companies' role in society. To promote clarity and uniformity on liability and information matters in state-owned companies, the Ministry of Enterprise, Energy and Communications has drawn up a proposal to support boards in adopting and revising rules of procedure and for handling certain information matters. Vattenfall AB abides by the same laws as privately owned companies in Sweden and complies where applicable, with the recommendations and norms that apply for companies listed on the Stockholm Stock Exchange. The Swedish Code of Corporate Governance (the Code) is part of the government's framework for its administration as company owners. Vattenfall applies the Code and regards it as one of several important sets of rules for external reporting and communication.

Developments in 2007 – positive as well as negative – underscore the central role that a leading energy company plays in modern society and how important public trust and customer confidence are in enabling an energy company to live up to this responsibility in a responsible manner. The events during the year also show that past success is no guarantee for the future – we must always dedicate ourselves to active renewal and improvement work. Given the ambitious efforts made every day by Vattenfall's more than 32,000 employees, I look forward to 2008 with great confidence.



Dag Klackenbergh

Dag Klackenbergh
Chairman of the Board

CORPORATE GOVERNANCE AND DECISION-MAKING

Application of the Code and contents of the Corporate Governance Report

Vattenfall applies the Swedish Code of Corporate Governance (“the Code”) and considers it as one of several important sets of governing regulations for external reporting and communication. Vattenfall also adheres to the Swedish state’s ownership policy. The departures that Vattenfall makes from the Code are mainly due to the Company’s ownership structure – Vattenfall has only one owner, while the Code is written primarily for listed companies with broad ownership.

Information on corporate governance according to the Code for the 2007 financial year is provided below. For information already provided in the Annual Report, reference is made to the appropriate section.

Annual General Meeting

According to the Vattenfall’s Articles of Association, the Annual General Meeting (AGM) shall be held within six months after the end of the financial year.

Vattenfall’s 2007 Annual General Meeting was held on 26 April 2007, in Stockholm. At the AGM, all directors were present, except for the two departing board members, Maarit Aarni-Sirviö and Peter Lindell, who had other engagements. The public was invited to attend, and Vattenfall arranged an open question and answer session, in accordance with the state’s ownership policy. Members of Parliament were given the right to ask questions in connection with the meeting, as stipulated in Vattenfall’s Articles of Association. The Meeting was transmitted live via webcast, and a taped version is available “on demand”. Minutes and other material from the AGM are published on Vattenfall’s website.

The Board’s composition and work

The duties and allocation of work in the Board

The matters reserved for the Board are prescribed primarily by the Swedish Companies Act and the Board’s Rules of Procedure. The main duties of the Board, apart from appointing the CEO and deputy CEO, are to establish the strategic direction of operations, approve major investments, acquisitions and substantial organisational changes in the Group, and to set central policies and instructions. In addition, the Board oversees the Company’s financial development and has ultimate responsibility for internal control and risk management.

Each year the Board establishes its Rules of Procedure, based on the supporting document for rules of procedure in state-owned companies issued by the State Enterprises Division of the Ministry of Enterprise, Energy and Communications. Apart from mandatory items pursuant to the Swedish Companies Act, the Rules of Procedure regulate such things

as the Chairman’s duties, information to the Board, the form of board meetings, the establishment of board committees, and evaluation of the work of the Board and the CEO.

The Chairman’s duties are outlined in the Swedish Companies Act and the Board’s Rules of Procedure. The Chairman heads the work of the Board and is responsible for ensuring that other board members receive adequate information. The Chairman participates when necessary in important external contacts. In the event the Chairman is prevented from fulfilling his duties, the Board’s work is headed by the Vice Chairman, who is appointed by the Annual General Meeting.

The Board has established within itself an audit committee, safety committee and compensation committee, which are described in more detail below. In addition, the Board can, where necessary, establish other committees to look into matters in more defined areas. In other respects, the Board shall not delegate any special areas of responsibility or duties among its members.

The Board’s risk management process

Operational risk management is regulated by Group instructions with special focus on risks associated with energy and commodity trading, and financial, insurance and credit risks. The Board decides on overall risk limits for the Group in all these areas. Operational risks are followed up on a regular basis and are reported within the respective Business Groups. At each board meeting the Board is informed about the Group’s financial position, and any outstanding guarantees and risks are reported. Twice a year the results of earlier decisions on investments are reported on for follow-up. The Board also holds an annual risk management seminar with a more thorough review of the Group’s financial and operational risks.

The Chief Financial Officer (CFO) has overall responsibility for the Group’s financial activities and risk management, and ensures compliance with the Group’s policies and instructions in this area. A Group risk committee has been established to support the CFO in these issues. The Risk Committee is chaired by the CFO and is primarily tasked with ensuring qualitative risk management in the Group by, for example, approving risk management methods, ensuring standardised routines for risk management and risk reporting, and proposing mandates and limits. Since 2003, the Group also conducts an annual environmental risk evaluation which is co-ordinated by the Head of Group Environment. The results of this evaluation are presented to the Executive Group Management (EGM) and Vattenfall’s risk committee. Environmental risk management is co-ordinated with other risk management. For more information about Vattenfall’s risks and risk management, see pages 70–73 of this annual report and Note 36 to the consolidated accounts.

Composition of the Board of Directors

According to Vattenfall’s Articles of Association, the Board shall consist of a minimum of five and a maximum of ten directors, in addition to the directors and deputies appointed pursuant to other laws than the Swedish Companies Act.

Departures from the Code

Vattenfall's corporate governance for the 2007 financial year departs from the requirements stipulated in the Swedish Code of Corporate Governance on the following points:

Code requirement	Description	Comment
1.1.2 Shareholders' initiative rights	Shareholder information on website	Information on the Annual General Meeting is provided on Vattenfall's website. However, because of the ownership structure, this stipulation is not directly applicable.
1.1.3 Notification of general shareholder meetings	Registration by e-mail or via the Company's website	Because of Vattenfall's ownership structure, this stipulation is not applicable.
1.4.1 Chairman to preside over the Annual General Meeting	The Nomination Committee shall propose a person to serve as AGM chairman	Due to its ownership structure, Vattenfall has no nomination committee. Election of an AGM chairman is done at the Meeting in accordance with the stipulations of the Swedish Companies Act.
2.1 Nomination committee	Composition of nomination committee and public announcement of the members and other related information	Due to its ownership structure, Vattenfall has no nomination committee. The nomination process is conducted in accordance with the Swedish state's ownership policy. Information on this process is provided below and on Vattenfall's website.
2.2 Appointment of the Board	The nomination committee's recommendations for directors, chairman and fees; the nomination committee's documentation for its recommendations and presentation of motivation for recommendations; report on the nomination committee's work	Due to its ownership structure, Vattenfall has no nomination committee. The nomination process is conducted in accordance with the Swedish state's ownership policy. Information on this process is provided below and on Vattenfall's website.
4.2.1 Compensation committee	Committee members shall be independent in relation to the Company	The Compensation Committee includes one member who is not an AGM-elected director and who is employed by Vattenfall. This gives the employee representatives an opportunity to participate on the committee.

Vattenfall's board has eight directors elected by the Annual General Meeting, plus three directors and three deputies elected by the employee organisations. No members of the EGM are board members. Of the board members, three are women and two are foreign citizens. The average age of board members is 57.

At the 2007 AGM, Christer Bådholm, Greta Fossum, Dag Klackenberg, Hans-Olov Olsson, Lone Fønss Schröder and Anders Sundström were re-elected as directors, and Jonas Iversen and Tuija Soanjärvi were elected as new directors. The AGM appointed Dag Klackenberg as Chairman of the Board and Hans-Olov Olsson as Vice Chairman. The employee organisations appointed Carl-Gustaf Angelin, Johnny Bernhardsson and Ronny Ekwall as employee representatives, with their deputies Lars Carlsson, Stig Lindberg and Per-Ove Lööv, respectively. In accordance with the Swedish state's ownership policy, the CEO is not a director on the Board. For further information on the Board of Directors, see pages 56–57 of the annual report.

Directors' fees

Directors' fees are set by the AGM. For information on directors' fees for 2007, see Note 46 to the consolidated accounts in the annual report.

Directors' independence

The Swedish state's ownership policy stipulates that nomination of directors is to be made public in accordance with the guidelines of the Code. However, directors' independence in relation to the Swedish state as a major shareholder is not to be reported. Of the Company's directors, Christer Bådholm,

Greta Fossum, Dag Klackenberg, Jonas Iversen, Hans-Olov Olsson, Lone Fønss Schröder, Tuija Soanjärvi and Anders Sundström are independent in relation to the Company and the EGM.

Appointment of the Board

For enterprises that are wholly owned by the Swedish state, uniform and joint principles for a structured nomination process are applied, which take the place of the Code's rules on the appointment of directors and auditors. The nomination process is run and co-ordinated by the State Enterprises Division of the Ministry of Enterprise, Energy and Communications. A work group analyses qualification needs based on the Company's operations and the current situation as well as the Board's composition. Thereafter, any recruitment needs are determined and recruitment work is initiated. Board members are chosen from a broad recruitment base. Once this process has been completed, any nominations are to be made public in accordance with the Code's guidelines.

Description of the Board's work

Board meetings are conducted largely according to a plan established by the Rules of Procedure. This specifies that seven ordinary meetings are to be held each year. In addition to ordinary meetings, the Board is summoned to further meetings if the need arises. According to the Rules of Procedure, at least one meeting each year must be held at a place other than the head office. In 2007 a meeting was held in Forsmark, which was combined with a tour of its nuclear power plant. In addition, a meeting was held in Hamburg, which was combined with a tour of the nuclear power plant in Krümmel.

The Rules of Procedure stipulate, among other things, that the following items must be included on the agenda once a year:

- The Group's strategic plan
- The Group's total risk exposure
- Safety and environmental issues within the Group's nuclear power operations
- Personnel issues within the Group, including the ability to attract and retain skilled personnel
- Research and development activities within the Group

In addition, the following are reported at each meeting:

- Important business events since the previous meeting, under the item "Business status"
- The Group's financial position

In 2007, safety issues at the Group's nuclear power facilities were also discussed at each board meeting.

Investments are followed up and analysed by the Board three years after the Board's decision to invest.

The Board also holds a number of board seminars each year. At these seminars the Board receives more detailed information about and discusses Vattenfall's long-term development, strategy, competitive scenario and risk management.

The Board had 13 meetings in 2007, including the statutory meeting. Following is a compilation of the meetings and some of the more important items of business that were discussed.

Matters handled by the Board appointed by the 2006 AGM

Meeting date	Focus and important matters discussed
17 January 2007	<ul style="list-style-type: none"> • The Group Management System (GMS) • The Group's risk exposure • The storm "Per" • Operations at Forsmark • The Group's network operations • The Group's climate activities
2 February 2007	<ul style="list-style-type: none"> • Operations at Forsmark
7-8 February 2007	<ul style="list-style-type: none"> • Year-end report • Operations at Forsmark • Establishment of a safety committee
7 March 2007	<ul style="list-style-type: none"> • Year-end book-closing, Annual Report and Audit Report • Corporate governance report and the Board's report on internal control • Evaluation of the Board and CEO • Vattenfall's R&D activities • Vattenfall's climate vision • Wind power issues • Management planning and development
4 April 2007	<ul style="list-style-type: none"> • Electricity generation in Sweden and Germany • Report from Safety Committee • Vattenfall's climate vision
25 April 2007	<ul style="list-style-type: none"> • Financial targets for Vattenfall AB • Vattenfall's three-month interim report

Matters handled by the Board appointed by the 2007 AGM

Meeting date	Focus and important matters discussed
Statutory meeting on 26 April 2007	<ul style="list-style-type: none"> • The Board's rules of procedure, instructions and division of duties between the Board and CEO, and instructions on financial reporting to the Board • Members and rules of procedure for Audit Committee • Members of the Safety Committee • Members of the Compensation Committee
21 May 2007	<ul style="list-style-type: none"> • Finance instructions and policy and instructions for managing energy and commodities risks • Follow-up of investments made during the first half of 2004 • Transmission networks in Germany • Report from Audit Committee • Vattenfall's Environmental Management System • Competition issues in Germany • General update on acquisitions • Current investments and divestments • Plan for renewable energy • Report from Safety Committee • Ongoing reorganisation
25 July 2007	<ul style="list-style-type: none"> • Report on the German nuclear power operations • Changes in Executive Group Management • Vattenfall's half-year interim report
30 August 2007	<ul style="list-style-type: none"> • Strategy seminar • Strategic plan • Communication issues • Acquisition matters • Competence succession in nuclear power technology • Wind power matters • Report from Safety Committee • Report from Audit Committee
23 October 2007	<ul style="list-style-type: none"> • Follow-up of investments made during the second half of 2004 • Acquisition matters • Current investment matters • Review of media image of Vattenfall Group locally and internationally • Evaluation of Board and CEO • Report from Safety Committee • Wind power matters • Quantification and follow-up of strategic objectives
30 October 2007	<ul style="list-style-type: none"> • Vattenfall's nine-month interim report
11-12 December 2007	<ul style="list-style-type: none"> • Acquisition matters • Succession planning for Executive Management Group • New Group structure for crisis management • 2008 business plans, financial plan and approval of investment plan • Investments in German energy generation and network operations • Carbon Capture and Storage (CCS) project • Safety and environmental issues in the Group's nuclear power operations • Annual follow-up of investment programmes in hydro, wind and nuclear power in the Nordic countries • Group borrowings and pledging of security

Directors' attendance at board meetings													
	Board appointed by 2006 AGM					Board appointed by 2007 AGM							
	17/01/07	02/02/07	07-08/02/07	07/03/07	04/04/07	25/04/07	26/04/07	21/05/07	25/07/07	30/08/07	23/10/07	30/10/07	11-12/12/07
Maarit Aarni-Sirviö	-	X	X	-	-	X							
Christer Bådholm	X	X	-	X	X	X	X	X	X	X	X	X	X
Greta Fossum	X	X	X	X	X	X	X	X	X	-	X	X	
Jonas Iversen							X	X	-	X	X	X	X
Dag Klackenberg	X	X	X	X	X	X	X	X	X	X	X	X	X
Peter Lindell	X	X	X	-	-	-							
Hans-Olov Olsson	-	X	X	X	X	-	X	X	X	X	X	X	-
Lone Fønss Schrøder	X	X	X	X	X	X	X	X	X	-	X	X	
Tuija Soanjärvi							X	X	X	X	X	X	X
Anders Sundström	X	X	X	X	-	X	X	X	X	X	X	X	X
Carl-Gustaf Angelin	X	X	X	X	X	X	X	X	-	X	X	X	X
Johnny Bernhardsson	X	X	X	X	X	X	X	X	X	X	X	X	X
Ronny Ekwall	X	X	-	-	X	X	X	X	X	X	-	X	
Lars Carlsson*	X	X	X	X	X	-	X	X	-	X	-	-	X
Stig Lindberg*	X	X	X	X	X	X	X	X	X	X	X	X	X
Per-Ove Lööv*	X	X	X	X	X	X	X	X	X	X	X	X	X

X Present - Not present *) Deputy

Evaluation of the Board's and CEO's work

The Board evaluates its own work and the CEO's work through a special process once a year. This evaluation is headed by the Chairman and is reported to the Board. The evaluations performed in 2006 and 2007 were based on analyses conducted by an external consultant. The most recent evaluation was presented at the board meeting on 23 October 2007. A report on the next evaluation is scheduled for the Board's meeting in October 2008.

Committees

Audit Committee

The Audit Committee is a board committee tasked with gaining greater knowledge of, insight into and control over the Company's accounting, financial reporting and risk management. The Audit Committee has special responsibility for ensuring application of the Code and for preparing required reports. The Audit Committee does preparatory work for the Board in quality assuring the Company's financial reporting. In conjunction with audits, the Company's auditors report their observations at Audit Committee meetings. No formal decision-making authority has been delegated to the committee, since its members are all directors on the Board.

At the board meeting on 26 April 2007, Christer Bådholm and Lone Fønss Schrøder were re-elected as members of the Audit Committee, and Tuija Soanjärvi was elected as a new member of the committee. Among non-AGM-elected board members, Per-Ove Lööv participated on the Audit Committee. With respect to fees paid the committee's members, see Note 46 to the consolidated accounts in the annual report.

The Board has adopted rules of procedures for the committee. The committee reports its work to the Board by submitting meeting notes to the Board and, when requested, by making presentations at board meetings.

The Audit Committee held four meetings in 2007. The auditors were present at all meetings and presented their observations from the audit. The auditors presented their audit of the annual accounts to the entire board at the board meetings held on 7 February 2007 and 7 March 2007. For auditors' report presented on 7 February, the Board met with the auditors without the presence of the CEO or other EGM members.

Attendance at Audit Committee meetings in 2007

	05/02/07	24/04/07	28/08/07	06/12/07
Peter Lindell	X	X		
Christer Bådholm	X	X	X	X
Lone Fønss Schrøder	X	X	X	-
Tuija Soanjärvi			X	X
Per-Ove Lööv (union representative)	X	X	X	X

Nomination Committee

Vattenfall AB has no nomination committee. For more detailed information on the nomination process, see under heading "Appointment of the Board" on page 49.

Safety Committee

On 8 February 2007 the Board established a safety committee tasked with closely monitoring and overseeing nuclear safety within the Group. The Safety Committee focuses on performing analyses of management systems, safety, reporting and management functions at Vattenfall's nuclear power plants. The committee oversees safety work and reports its observations to the Board. This is done by the committee chair as well as by the safety expert who was appointed by the board on 4 April 2007 to perform an analysis of the Group's nuclear power plants. The committee also reports its work to the Board by submitting meeting notes to the Board. As a board committee, the Safety Committee has no formal decision-making authority. With respect to fees paid the committee's members, see Note 46 to the consolidated accounts in the annual report.

Upon establishment of the Safety Committee, the following persons were appointed as members: Christer Bådholm, Anders Sundström and Dag Klackenberg. These persons were re-elected at the board meeting on 26 April 2007. Among non-AGM-elected directors, Johnny Bernhardsson participated on the Safety Committee.

The Safety Committee held four meetings in 2007. Following is a record of the members' attendance at the committee's meetings.

Attendance at Safety Committee meetings in 2007

	01-02/03/07	02/04/07	27/04/07	11/10/07
Christer Bådholm	–	X	X	X
Dag Klackenber	X	X	X	X
Anders Sundström	–	X	X	X
Johnny Bernhardsson (union representative)	X	–	X	X

Compensation Committee

The Compensation Committee prepares ongoing matters regarding the compensation of senior executives, including matters pertaining to annual salary reviews and other terms of employment for the CEO.

In addition, a going-rate principle is adhered to regarding the salaries and remuneration of all deputy CEOs and heads of the Group functions. The committee reviews current compensation, fixed and variable salaries, and other remuneration where applicable, including pension terms, of significance to all such executives. The committee also drafts principles regarding salaries and remuneration.

At the board meeting on 26 April 2007, Dag Klackenber and Anders Sundström were re-elected as members of the Compensation Committee, and Jonas Iversen was elected for a first term. Among non-AGM-elected directors, Carl-Gustaf Angelin participated on the Compensation Committee. The head of Human Resources and deputy head of Human Resources make presentations at the committee's meetings.

The Compensation Committee has adopted rules of procedure for its work. The committee reports on its work to the Board, whereby the committee chair 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. The committee also reports its work to the Board by submitting meeting notes to the Board.

The Compensation Committee held one meeting in 2007, on 18 October, which was attended by Dag Klackenber, Anders Sundström and Carl-Gustaf Angelin.

Remuneration of senior executives

The Board has approved a programme that complies with the Swedish government's guidelines on remuneration and incentive programmes for senior executives. The programme covers all employees in Sweden and took effect in 2005. Each year Vattenfall's internal auditors perform a review to ensure compliance with these guidelines. The result of this review is reported to the Board.

According to these guidelines, the CEO does not receive any variable salary. Other executives and employees in Sweden do not have higher variable salary than the equivalent of two months' salary a year, or 16.7% of their normal base salary. The normal base salary for certain executives can be decreased by 16.7%, depending on performance. Lo-

cal practice applies in other countries. As previously, the Group's long-term value creation forms the basis of compensation levels. The Group's targets apply for all employees. Executives' individual performance is also measured, as is the performance of their respective units.

There are no share- or share price-related incentive programmes for the Board or Executive Group Management. Due to Vattenfall's ownership structure, no such programmes will be possible, either.

More detailed disclosures about taxable salaries, benefits and pension costs for the Chairman of the Board, company directors, the CEO and other senior executives are provided in Note 46 to the consolidated accounts in the annual report.

Assuring the quality of financial reporting

In its separate report on internal control (page 55), the Board has reported on the Company's internal control structure in the financial reporting routines.

The Audit Committee's work is a part of this control exercised by the Board, where external and internal auditors present their observations to the directors who are members of the Audit Committee. The external auditors presented, among other things, their observations concerning the six-month accounts and the annual accounts at each audit committee meeting in 2007. At these meetings, Vattenfall's internal audit function is represented by its head, who also presents the unit's findings to the Audit Committee. At least two meetings between all board members and the external auditors are planned for 2008.

In conjunction with planning work for the annual audit, discussions are held between the external auditors and the internal audit unit concerning Vattenfall's risk situation.

Auditors

The Swedish state's ownership policy states that responsibility for election of auditors of state-owned companies shall always rest with the owner by decision of the Annual General Meeting, and that the Swedish National Audit Office can appoint one or more auditors to participate in the annual audit.

The 2004 Annual General Meeting appointed Ernst & Young AB as auditor, with Authorised Public Accountant Lars Träff as auditor-in-charge. This appointment applies for a term lasting through the 2008 AGM. Lars Träff has served as auditor-in-charge since the 1997 AGM. In addition to Vattenfall, Lars Träff has auditing assignments with the following companies, among others: Lantmännen, Scania, Sweden Post, Ångpanneföreningen (ÅF), Avanza and Öresund. Lars Träff has no assignments with companies that affect his independence as an auditor of Vattenfall.

The Swedish National Audit Office has appointed Authorised Public Accountant Per Redemo to serve until the 2008 AGM. He has held this position since 2004. Per Redemo is the appointed auditor for Vattenfall AB, Sveriges Television AB and Chalmers Tekniska Högskola AB, and he is auditor-in-charge for the following authorities/state

enterprises: the Swedish Tax Agency, the Swedish National Board of Student Aid (CSN), and Swedish State Railways. Per Redemo has no assignments for companies that affect his independence as an auditor of Vattenfall.

The auditors are present and report at the board meeting concerning the annual report and meet with Vattenfall's CEO and CFO on a number of occasions throughout the year. In addition, the auditors maintain ongoing contact and attend meetings of the Board's audit committee. When more extensive consulting is required from the elected auditors, such assignments must first be considered and approved by the Audit Committee. The Group's audit costs are described in more detail in Note 49 to the consolidated accounts and Note 39 to the Parent Company accounts in the annual report.

Consulting services provided by Ernst & Young AB from 2005–2007 pertained primarily to tax and accounting issues.

National Audit Office

In 2007 the National Audit Office conducted a review to see if internal governance and follow-up at Vattenfall AB is being conducted in accordance with the amendments that were made to the Company's Articles of Association in 2005. In addition, a review was conducted to see if the reporting of the result of the new orientation is being done in such a way that a comparison with the amended wording is possible. The amendment to Vattenfall AB's Articles of Association states that "the Company shall, within the framework of businesslike operations, be the leading company in the transition to an ecologically and economically sustainable Swedish energy supply...". The National Audit Office's overall judgement is that the amendment to the Articles of Association has affected Vattenfall's internal governance and internal reporting. In addition, the National Audit Office stated that the Group has taken significant measures to achieve the desired ambition levels for generation of electricity and renewable energy. However, it has been noted that the amendment leaves scope for varying interpretations. The complete assessment can be found in the National Audit Office's report, RiR 2007:29.

General information on the Group Management System

The Group is governed with a focus on value creation and long-term overarching goals and requirements for the Business Groups and Business Units. The Business Groups propose short-term goals for each Business Unit, which are subsequently approved by the CEO and Executive Group Management (EGM).

To ensure that Vattenfall develops in the intended direction and lives up to ethical and legal requirements, the CEO has established a Group Management System (GMS), which also includes a description of how the Group is governed. Integrated with the GMS is an Environmental Management System (EMS), which governs how the Group manages environmental issues. The GMS and EMS are available to all employees on the Group's intranet.

The GMS consists of a number of building blocks (see GMS diagram on page 54). Governance is based on Vattenfall's mission and vision, the Group-wide Code of Conduct and company philosophy, and on the Group's policies in key areas. The GMS is documented in governing documents, consisting of Group policies, Group instructions and other documents. The Group policies describe the intentions for action on matters of importance for the Group, while Group instructions provide more detailed and operative control, and lay down binding rules.

The "Roles and Allocation of Responsibility" instruction defines decision-making bodies and fundamental roles within the Group.

Another set of central instructions are the "Principles for Decision-Making and Delegation", which also cover delegation from the CEO to the heads of the Business Groups, Group Functions and Group Shared Services.

The Group's management processes for strategic planning, business planning and follow-up are central governance tools for the Executive Group Management.

The Group functions are responsible for proposing, developing and following up Group policies and instructions. The Group's Quality function is charged with coordinating the GMS. Both the Head of the Group's Quality function and the Head of Group Environment must approve all Group policies and instructions prior to final adoption. All governing documents at the Group level are submitted to the EGM for approval.

All activities within Vattenfall are obligated to comply with the GMS governing documents. Consequently, each Business Group has a complementary management system that is adapted to the detailed requirements of its operations. Special routines are in place to ensure that the GMS and EMS are also applied by subsidiaries. With respect to subsidiaries in the Nordic countries, this is done in part through special owner statements at Annual General Meetings with the purport that the management systems shall also apply for the respective subsidiaries within the framework of applicable laws, etc. These owner statements are a part of Vattenfall's management systems and enable Group-wide governance of operation in accordance with the intentions that are ultimately adopted at Vattenfall AB's Annual General Meeting. The Group's Internal Audit function is responsible for reviewing and evaluating compliance with the GMS.

Organisation and processes

Vattenfall's organisational model is based on the value chain for electricity – generation, transmission, distribution and sales – and for heat – generation, distribution and sales. The President, who is also the Chief Executive Officer, heads the Group's business activities and administration in accordance with the Swedish Companies Act and the Board's instructions. Reporting and follow-up of the business activities are conducted with full transparency in accounting, control, profitability and value creation.

In terms of governance, Vattenfall’s operations are broken down into three categories:

- Business activities are handled by Business Groups and their Business Units in defined geographic areas.
- Group and Business Group functions that support their respective management teams.
- Shared Service units, which provide services that support their customers’ (internal Business Units and others) efforts to optimise their business activities. Shared Service activities are run on a full cost basis and operate at both the Group (Group Shared Services) and Business Group levels.

A number of governance processes that are essential for the Group have been established. Each process is managed by a process owner, usually a member of the EGM, who is responsible for developing the process. At present, the following Group processes exist:

Process	Process owner
Strategy and business planning	Head of Group Strategies
Reporting and follow-up	Chief Financial Officer
Risk management	Chief Financial Officer
Mergers & acquisitions	Head of M&A
Investments	Chief Financial Officer
Communications	Head of Communications
Management planning	Head of Human Resources
Capacity management	Head of Group Strategies

The strategy and business planning process culminates in yearly strategy and business plans. This process includes

the analysis and assessment of strategic issues for ongoing evaluation with decisions on selection, formulation and prioritisation made by the EGM. Strategy planning includes the Group’s long-term operations as well as its financial performance. Each year a five-year strategic plan is drafted for decision by Vattenfall’s board.

Based on the directives of the strategic plan, the Business Groups and Business Units draw up three-year business plans that are ultimately approved by the EGM. The business plans for the following calendar year are adopted by the Board.

Governing business ethics

Vattenfall’s core values are:

Openness, Accountability and Effectiveness.

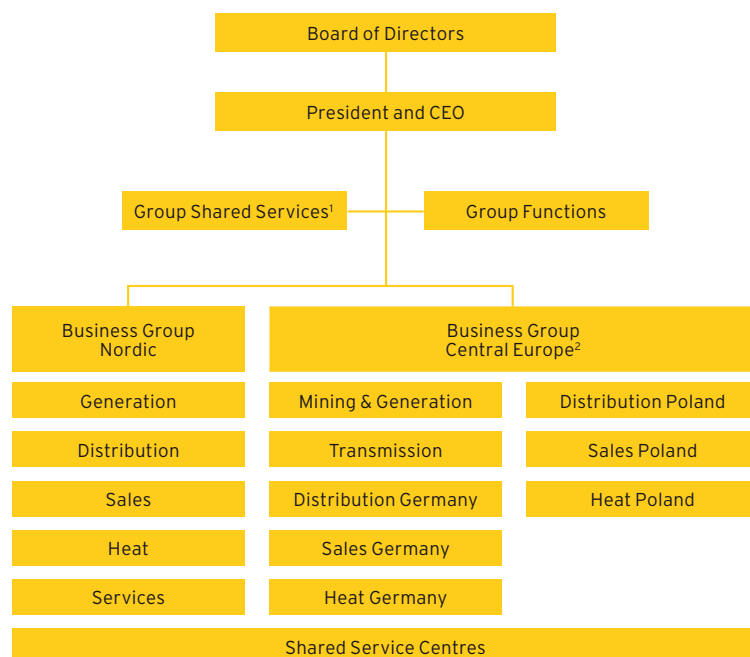
Vattenfall’s joint-Group Code of Conduct and company philosophy stipulate that all employees shall adhere to and work in accordance with Vattenfall’s core values, policies and Group instructions. The stipulations of the Code are concretised in other parts of the GMS, such as in instructions for general legal and business ethics principles, and competition matters. Further information on governing business ethics is provided in Vattenfall’s CSR Report, which can be downloaded and ordered from Vattenfall’s website: www.vattenfall.com.

Audit of the Corporate Governance Report

The Corporate Governance Report and the description below of the Company’s internal control of financial reporting have not been reviewed by the Company’s auditors.

Vattenfall’s Group Management System and organisation

Building blocks of Group Management System



1) Vattenfall Trading Services, Vattenfall Treasury, Vattenfall Insurance, Vattenfall Research and Development and Vattenfall IT Infrastructure Services.

2) Business Group Germany and Business Group Poland were integrated on 1 January 2008 into the new Business Group Central Europe.

The Board's report on internal control of financial reporting

This report has been prepared in accordance with section 3.7.2 of the Swedish Code of Corporate Governance (the Code). It includes a description of the most important internal control routines regarding Vattenfall's financial reporting.

Control environment

Apart from relevant legislation, the framework surrounding the Board consists of the Swedish state's ownership and administration policy and the Code.

Vattenfall's Group-wide Code of Conduct, which has been approved by the Board, expresses the expectation that all employees agree to adhere to Vattenfall's company philosophy, Code of Conduct, core values, policies and rules.

The formal decision-making structure in the Group is based on the division of responsibility between the Board and CEO, which the Board has established in its Rules of Procedure. To define and ensure a shared view of roles and responsibilities, the EGM has adopted a management system with governing documents which provide – among other things – Group instructions for decision-making, delegation and authorisation, governance of subsidiaries, risk management and internal control.

Risk analysis

The rules and outcome of the Group's risk assessment and risk management processes are reviewed by the Board each year. The Board has appointed an audit committee tasked with, among other things, assessing the scope and focus of the Group's risk management. The Group's risk management and reporting are co-ordinated by a risk committee that is headed by Vattenfall's CFO.

Control activities and follow-up

The Board receives monthly financial reports, and the Parent Company's and Group's financial position are discussed at every board meeting. The EGM has regular follow-up meetings on the financial outcome with the management and finance functions of the various business areas.

Vattenfall's management system contains a description of the essential financial reporting processes. The management system serves as a platform for internal control for all units within the Group. The control activities for financial reporting in the Group are followed up, analysed, developed and improved on a continuous basis. In 2007 Vattenfall conducted a Group project aimed at further strengthening internal control of financial reporting. A newly developed framework focusing on adopting key controls in financial reporting was completed during the year. Starting on 1 January 2008, responsibility for reporting, follow-up and continuous development of the framework for good internal control in financial reporting has been transferred from the project organisation to a newly established Compliance Officer function in the Group function Finance. In addition, Internal Audit has performed and reported on reviews in selected areas.

Information and communication

Information and communication about the Group's policies, instructions, guidelines and manuals are available on Vattenfall's intranet. Updates and changes in accounting and reporting principles are communicated via messages on the intranet, e-mail, and at regular meetings held by the Group's finance and control functions.

BOARD OF DIRECTORS

Dag Klackenborg (born 1948) is Chairman of the Board and was elected as a director in 2001. He has an MBA from the Stockholm School of Economics and Bachelor of Law degree from Stockholm University. After completing an internship with the Ministry for Foreign Affairs in 1974, he held various positions at the Ministry for Foreign Affairs until 1993, when he was named Director-General for Administrative Affairs, a position he held until 2001. Since 2001 he has been serving as President of the Swedish Trade Federation. He is a director on the boards of Handelsbanken Regionbank Stockholm and Atrium Ljungberg AB, and is Chairman of the Board of Ersta Sköndal högskola.

Hans-Olov Olsson (born 1941) is Vice Chairman of the Board and was elected as a director in 2004. He has a M.Sc. in Political Science from Göteborg University with a focus on Economics and Information Management. He has completed a management programme at Harvard Business School. In 2006 he conferred with an honorary doctorate in economics from the Göteborg University School of Business, Economics and Law. He began his career at Volvo in 1966 as a systems engineer, followed by a number of management positions. He was CEO of Volvo Car Corporation from 2000–2005 and Chairman in 2006. In 2006 he was responsible for global branding and marketing strategy at Ford Motor Company and a member of Ford's executive management. He is currently Chairman of the industry and employer organisation Teknikföretagen and Vice Chairman of the Confederation of Swedish Enterprise. He is also a director on the boards of AB SKF, Lindab International AB, Höganäs AB, Elanders AB, the Anna Lindh Memorial Fund and the IQ initiative.

Maarit Aarni-Sirviö (born 1953) was elected to the Board in 2003 and resigned at the 2007 Annual General Meeting.

Carl-Gustaf Angelin (born 1951) is an employee representative (for "Akademikerrådet") and was elected to the Board in 2003. He has a M.Sc. in Engineering from the Royal Institute of Technology in Stockholm. Between 1977 and 1988 he worked at AB Svenska Fläktfabriken, and has since served in various positions within the Vattenfall Group. He is currently active in Sales Nordic.

Johnny Bernhardsson (born 1952) is an employee representative (for "Unionen") and was elected to the Board in 1995. He is a qualified engineer and has completed supplementary coursework in economics at TBV. He has held various positions within the Vattenfall Group since 1970.

Christer Bådholm (born 1943) is a director and was elected to the Board in 2002. He has an M.Sc. in Engineering from Chalmers University of Technology (Gothenburg) and has also completed courses in Corporate and Group Management at IFL and in International Management at MiL. He has a long record of experience as a CEO for various companies in the transport industry, including ABV Southern Region, NCC International AB, ABB Traction AB, Adtrans GmbH and Bombardier Transportation GmbH. He has had his own consultancy business since 2002. He is also a director on the boards of Anläggnings AB ODEN and Icomera AB, and is Chairman of Bombarier Transportation Sweden AB and Balfour Beatty Rail AB.

Lars Carlsson (born 1951) is an employee representative (for "Unionen") and was elected as a deputy director to the Board in 1991. He has a degree in engineering from Katrineholm Technical College. He has held various positions within the Vattenfall Group since 1972.

Ronny Ekwall (born 1953) is an employee representative for SEKO (the Union of Service and Communication Employees) and was elected to the Board in 1999. He has electrical engineering training from the Stora Kopparberg Vocational College. From 1969–1977 he served as principal electrician at Stora Kopparberg, and has since then worked as an electrician within the Vattenfall Group.

Greta Fossum (born 1947) is a director and was elected to the Board in 2006. She has a M.Sc. in Engineering and an Engineering Licentiate from the Royal Institute of Technology in Stockholm, and an Honorary Doctorate from Umeå University. From 1974 until 2000 she served as a departmental manager and research manager at Modo R&D in Örnsköldsvik, and is currently an executive at Skogsindustrierna with responsibility for research policies. She is a director on the boards of Innovationsbron Umeå, The Marcus Wallenberg Foundation, Allehanda Media AB and Tryckteknisk Forskning AB, and a member of the Royal Swedish Academy of Engineering Sciences (IVA).

Jonas Iversen (born 1965) is a director and was elected to the Board in 2007. He has a M.Sc. degree in economics from Stockholm University and is assistant undersecretary and head of the division for state ownership in the Ministry of Enterprise, Energy and Communications. He was previously a deputy director in the Ministry of Finance. He is also a director on the board of Vin & Sprit AB.

Stig Lindberg (born 1946) is an employee representative for Ledarna (the Swedish Organisation for Managers) and was elected as a deputy director in 1992. He has a degree in technical engineering and has served as a foreman at Kraftbyggarna Entreprenad AB and Ringhals AB, and in the Vattenfall Group since 1985.

Peter Lindell (born 1972) was elected as a director on the Board in 2002 and resigned at the 2007 Annual General Meeting.

Per-Ove Lööv (born 1961) is an employee representative for SEKO (the Union of Service and Communication Employees) and was elected as a deputy director in 1999. He has a degree in Business Economics from the Luleå University of Technology, and a degree in Engineering from Midskogsskolan Luleå. He has held various positions within the Vattenfall Group since 1987.

Lone Fønss Schrøder (born 1960) is a director and was elected to the Board in 2003. She has a M.Sc. in Law from the University of Copenhagen, and a M.Sc. in Economics from the Copenhagen Business School. From 1982–2003 she held various executive positions at A.P. Møller/Maersk A/S, and since 2003 she has been serving as Managing Director of Wallenius Lines AB. She is a director on the boards of DSB and Yara ASA, Chairman of Bioneer A/S and WWL A/S, and Vice Chairman of Aker ASA.

Tuija Soanjärvi (born 1955) is a director as was elected to the Board in 2007. She has a Master's in Economics from the Helsinki School of Economics and Business Administration and is CFO of Itella Abp (formerly Posten Finland Abp). She worked for Kesko Abp from 1981 to 1986, and thereafter held various positions for TietoEnator Abp. She was CFO for Elisa Abp from 2003 to 2005.

Anders Sundström (born 1952) is director and was elected to the Board in 2004. He has a BA in Social Science from Umeå University. He served as Municipal Commissioner for the Municipality of Piteå from 1980–1994, Chairman of the Norrbotten Chapter of the Swedish Social Democratic Party from 1989–1999, and was a member of the Social Democratic party board and executive committee from 1990–2005. He has also held several minister posts in the Swedish government: Minister of Labour from 1994–1996, Minister of Enterprise, Energy and Communications from 1996–1998, and Minister of Health and Social Affairs in 1998. From 1999–2002 he was President of Sparbanken Nord. He is currently Managing Director of Folksam Liv and Folksam Sak, Chairman of the Luleå University of Technology, and a director on the boards of Boliden AB, Falck A/S and ALKA Forsikring A/S.



In November the Board of Directors visited Vattenfall's nuclear power plant Krümmel, Germany.

Dag Klackenberg



Christer Bådholm, Ronny Ekwall, Johnny Bernhardsson, Carl-Gustaf Angelin



Per-Ove Lööv, Hans-Olov Olsson, Stig Lindberg, Tuija Soanjärvi



Jonas Iversen



Anders Sundström



Lone Fønss
Schröder



Lars Carlsson



Greta Fossum



EXECUTIVE GROUP MANAGEMENT

Lars G. Josefsson (born 1950) has been serving as President and CEO since 2000. He has a M.Sc. in Engineering from the Chalmers University of Technology in Gothenburg and began his career at Ericsson in 1974, where he held several positions until 1993 in the Radar Section and Surface Sensor Division. From 1993–1997 he was Managing Director of Schrack Telecom AG, Vienna, and thereafter served as Managing Director of Celsius until 2000. He is a director on the board of ESKOM Holdings Ltd, Vice Chairman of Eurelectric and Chairman of the German-Swedish Chamber of Commerce. At year-end Lars G. Josefsson did not have any material shareholdings in companies with which Vattenfall has business dealings.

Jan Erik Back (born 1961) took office as First Senior Executive Vice President and Chief Financial Officer in January 2007. He has an MBA from Uppsala University and began his career with Handelsbanken, in 1987. Between 1987 and 1998 he held several positions in the areas of money markets, foreign operations and central business control. He joined Skandia in 1998 as Head of Group Accounting and was subsequently named Group Controller. He became CFO of Skandia in 2002 and was also named as an Executive Vice President, a position he held until autumn 2006.

Tuomo Hatakka (born 1956) is Senior Executive Vice President of Vattenfall AB since 2005 and Head of Business Group Central Europe since 1 January 2008. He was Head of Business Group Poland from 2004 to December 2007. He studied at the Helsinki School of Economics and Business Administration and the Instituto de Estudios Superiores de la Empresa, in Barcelona, Spain. His professional experience includes work as a consultant at Bain & Company, London, Executive Vice President and partner at Enterprise Investors in Warsaw, Poland, and President and CEO of Elektrim Kable SA, Warsaw, Poland.

Hans von Uthmann (born 1958) has been serving as Senior Executive Vice President of Vattenfall AB and Head of Business Group Nordic since 2003. He attended the Stockholm School of Economics. From 1984–1994 he held various management positions with the Shell Group. He then served as Head of Business and Strategy Consulting for Shell International in London until 1996, when he was appointed as Managing Director of AB Svenska Shell. In 2000 he was named President and CEO of Duni AB, a post he held until 2003. He is a director on the boards of the Confederation of Swedish Enterprise, DF AB and Fryshuset, Vice Chairman of Svensk Energi, and Chairman of EFA (Energiföretagens Arbetsgivareförening).

Helmar Rendez (born 1962) took office as Senior Vice President, Group Function Strategies in August 2007. He has a Ph.D. from the Berlin University of Technology (TU). He was a project manager at Zentrum für Logistik und Unternehmensplanung GmbH in Berlin from 1989–1993, Managing Director of Kienbaum Management Consultants GmbH's Berlin office from 1993–1998, and head of group development at VEAG (Vereinigte Energiewerke AG), Berlin from 1998–2001. He was responsible for the integration process within Vattenfall Europe and head of Company Development from 2001–2003. He was a member of the executive management of WEMAG AG, Schwerin, from 2004–2007, and Managing Director of Vattenfall Europe Business Services GmbH, Berlin, from 2006–2007.

Ann-Charlotte Dahlström (born 1952) has been serving as Senior Vice President, Group Function Human Resources since 2001. She has an MA from Stockholm University and has completed several management courses. Prior to joining Vattenfall she served as Head of Human Resources for the Stockholm County Council, Ericsson and SEB. She is a director on the boards of EFA (Energiföretagens Arbetsgivareförening), IHM Business School and Salus Ansvar.

Mats Fagerlund (born 1950) was Executive Vice President, Group Function Legal Affairs (Legal Affairs and M&As) from 2003–2007. He is a member of the executive management (Vorstand) of Vattenfall Europe AG and Head of Distribution Germany and Transmission for Business Group Central Europe. 31 December 2007 he left his position as Head of Group Function Legal Affairs and also his seat on the Executive Group Management.

Knut Leman (born 1950) was Senior Vice President, Group Function Communications from 2000 until 1 February 2008, when he retired. He has a Diploma in Market Economics from DIHM, and a PR and Journalism degree from Skurups Folkhögskola. Prior to joining Vattenfall, he served as Information Officer for Volvo AB from 1991–1997, and thereafter as Information Officer for Bure Equity AB, until 2000. He is a director on the board of the Swedish Marketing Federation.

Lennart Billfalk (born 1946) was Senior Vice President, Group Function Strategies until mid-August 2007, when he retired.

Klaus Rauscher (born 1949) was a Senior Executive Vice President of Vattenfall AB since 2003 and Head (Vorstandsvorsitzender) of Vattenfall Europe AG until July 2007, when he resigned.

Hans-Jürgen Cramer (born 1951) served as Senior Executive Vice President of Vattenfall AB in 2007 and was Head of Business Group Vattenfall Europe and spokesman for Vattenfall Europe AG's executive management (Vorstand) from July–December 2007. He left his post on 31 December 2007 following a reorganisation.

New members of the Executive Group Management starting 1 February 2008

Carolina Wallenius (born 1968) is Senior Vice President, Group Function Communications. She has a M.Sc. in Economics from Stockholm University and has held various management positions at the corporate level for the Stockholm County Council and Intentia, among others. She was also a business area manager for Tradimus (now called Aditro).

Hélène Biström (born 1962) is Vice Head of Business Group Nordic since 2007. She has a M.Sc. in Engineering from the Royal Swedish Institute of Technology in Stockholm. She has held various positions with Vattenfall AB from 1985–2000. From 2001 to 2002 she was President of REGA Energiplanering AB. She returned to Vattenfall in 2003, and from 2004 to 2007 she was Head of Business Unit Heat Nordic.

Hans-Jürgen Meyer (born 1957) is Finance Director of Vattenfall Europe AG since 2005. He has a Dr. Jur. (PhD) degree from the University of Tübingen Law School, and a Master of Laws degree from Harvard University Law School, USA. He served as a Law Clerk with the Federal Administrative Court of Germany, in Berlin, from 1983–1985, and from 1987–1991 he worked as a judge. From 1991–2000 he worked for Treuhandanstalt/BVS (a Federal Agency) in Berlin, and was named Vice President in 1993. He joined Bewag AG in 2000 as its Chief Financial Officer. From 2002–2005 he was Head of Control and Finance for Vattenfall Europe AG.



Capital Markets Day at Nalen in Stockholm.



Ann-Charlotte Dahlström



Hans von Uthmann



Lars G. Josefsson



Jan Erik Back



Tuomo Hatakka



Helmar Rendez



Carolina Wallenius



Héléne Biström



Hans-Jürgen Meyer



Hans-Jürgen Cramer
(left the EGM on 31 December 2007)



Mats Fagerlund
(left the EGM on 31 December 2007)



Knut Leman
(retired on 31 January 2007)

In September Vattenfall organised its sixth Capital Markets Day in Stockholm. The aim was to provide investors, bankers and analysts a deeper understanding of Vattenfall's current situation, markets, strategies and future plans, and to give participants an opportunity to ask questions in person to members of the Executive Group Management.

FINANCIAL TARGETS AND PERFORMANCE

Vattenfall's vision to be a leading European energy company is conditional upon economic value creation and profitable growth. These are the starting points for the Group's financial targets, which in turn are the platform for business planning process at the business unit level. The financial targets are long-term, which means that they are to be evaluated as averages over a business cycle (approx. 5–7 years).

Main goal is long-term sustainable economic value creation

Creating economic value by generating a competitive return over time is Vattenfall's overriding financial objective, since the Group's other strategies are based on a requisite level of financial strength. The owner's required rate of return is used as the basis for setting targets for profitability, dividends and financial risk. The Board reviews the proposed targets and decides to propose them to the Annual General Meeting, where the owner then makes the final decision. For a compilation of Vattenfall's four current financial targets and goal fulfillment, see the presentation below.

Goals for the business units

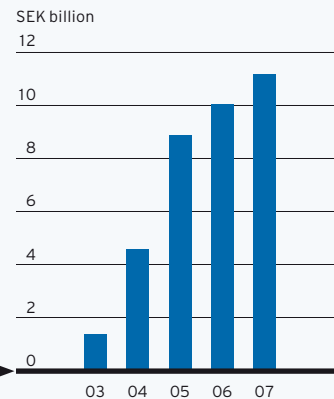
Vattenfall's management has decided to define a Group-wide return target based on a balanced consideration of

Value creation

The difference between the achieved return on net assets and the required rate of return is multiplied by net assets to arrive at an estimated economic value that is generated by the operations every year, before tax.

*) Figures for 2004 and onward are calculated according to IFRS.

The Group's required rate of return on net assets = 11%



the financial targets that have been set by the owner at the Annual General Meeting. Since Vattenfall works in an exceptionally plant-intensive industry, this target is expressed

Financial targets

Profitability

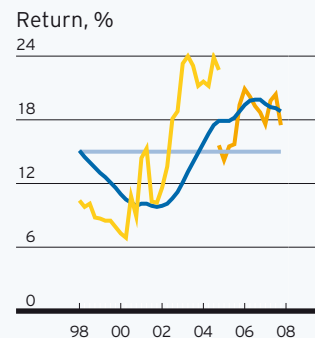
The owner's long-term return target is that profit after tax will amount to 15% on average equity. Translated to the Group's long-term required level of profitability, expressed as the return on net assets, this corresponds to a return of approximately 11% before tax.

Outcome

- Return on equity after tax in 2007 was 17.6% (19.1%).
- Return on net assets¹ was 16.6% (16.8%)².
- Return on equity after tax¹, last 12 months (Sw. GAAP)
- Return on equity after tax¹, last 12 months (IFRS)
- Return on equity after tax¹, moving four year basis (Sw. GAAP tom Q3 2004)
- Return target, 15%

1) Excl. items affecting comparability.

2) Adjusted value compared with previously published information in Vattenfall's 2006 Annual Report. See Note 2, Accounting principles.

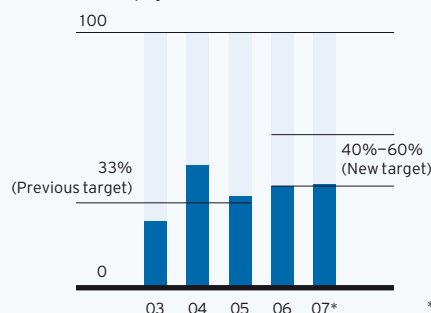


Dividend policy

The aim is that the dividend over the long-term shall amount to 40%–60% of profit after tax. However, the yearly decisions on the dividend shall take implementation of the Company's strategy, financial position and other economic targets into account. The dividend target was changed in April 2006. Previously it was 33%.

Long-term dividend target, %

% of profit for the year. Exact dividend amounts are shown in the 10-year review on page 123.



*) Proposed dividend.

as the return on net assets (operating profit as a percentage of average net assets). Since Vattenfall's various operations have varying conditions, the Group-wide target is broken down into individual targets for each business unit, according to which operations are conducted. The basic principle for target formulation at the business unit level is that asset-intensive operations are evaluated according to the return on the asset base, while service operations are measured according to operating margin. If a business unit exceeds its target, it can seek profitable growth opportunities.

Vattenfall has identified a number of important factors in its business environment which together are putting pressure on profitability in the industry in the near and medium term perspectives, including higher prices for CO₂ emission allowances, higher fuel costs, lower transmission and distribution tariffs in Germany, and new generation taxes in Sweden. This will put higher demands on productivity improvements and efficiency in order to ensure economic value creation. An important sub-target in this ambition is to achieve a productivity improvement of 11%, corresponding to total cost reductions of SEK 5 billion from the 2006 level during the period 2008–2010.

Management of the Vattenfall Group's equity

The Vattenfall Group's equity consists of reported equity including minority interests, which at year-end amounted to SEK 124,132 million (107,674). The owner's long-term target for return on equity attributable to shareholders in the Parent Company is 15% after tax. In addition, the owner has defined a cash flow-based target for interest coverage and the goal of maintaining a "single A" credit rating. The rating is a balanced assessment of Vattenfall's creditworthiness and replaces more specific targets, such as equity ratio, debt/equity ratio, and so on. Implementation of the Company's strategy, its financial position and other financial targets are taken into account when making the annual dividend decisions.

Other goals

In addition to Vattenfall's financial targets, during the year quantitative goals were set for Vattenfall's five strategic ambitions. The priorities and goals for each strategic ambition are described in detail on pages 8–19.

Financial targets

Ratings

It is Vattenfall's intention to maintain a long-term credit rating in the single A category from both Moody's and Standard & Poor's.

Vattenfall's current ratings are A-/A-2 from Standard & Poor's and A2/P-1 from Moody's. Both Moody's and Standard & Poor's changed their outlook from positive to stable during the third quarter of 2006 due to Vattenfall's stepped up investment plans, stricter requirements from the network regulators and higher political risk. In 2006, the rating agency Fitch published a rating for Vattenfall. This was not initiated by Vattenfall and is thus based on open, publicly available information about Vattenfall.

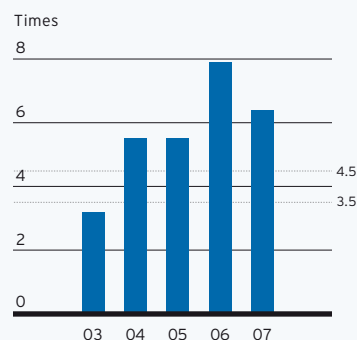
Outcome

	Long-term Moody's	Long-term S&P	Short-term Moody's	Short-term S&P
2007	A2	A-	P-1	A-2
2006	A2	A-	P-1	A-2
2005	A2	A-	P-1	A-2
2004	A3	A-	P-2	A-2
2003	A3	A-	P-2	A-2
2002	A3	A-	P-2	A-2
2001	A3	A-	P-2	A-2
2000	A1	A+	P-1	A-1

Cash flow interest coverage

This target was redefined in April 2006. The owner's previous target that the cash flow interest coverage ratio based on operating profit should amount to 3.5–5.0 times was replaced with the target that "the cash flow interest coverage ratio after maintenance investments" should amount to 3.5–4.5 over the long term. For a complete definition, see page 127.

Cash flow interest coverage ratio after maintenance investments



ADMINISTRATION REPORT

The Board of Directors and President of Vattenfall AB (publ), Swedish corporate identity number 556036-2138, herewith submit the annual accounts and consolidated accounts for 2007, encompassing pages 62–120, which has been translated from the Swedish original.

Group operations and structure

Vattenfall's vision is to be a leading European energy company. The Company's main products are electricity and heat. Vattenfall works in all parts of electricity value chain – generation, transmission, distribution and sales. The Company produces, distributes and sells heat. Vattenfall also conducts energy trading and lignite mining. Operations are conducted today in Sweden, Denmark, Finland, Germany and Poland, and the primary segments are the Nordic countries, Germany and Poland. Vattenfall has approximately 5.7 million customers. The Group has slightly more than 32,000 employees. Vattenfall AB is 100%-owned by the Swedish state. The Board of Directors has its registered office in Stockholm.

The year in brief

- Net sales rose 5.8%, to SEK 143,639 million (135,802).
- Operating profit rose 2.7%, to SEK 28,583 million (27,821)¹.
- Profit for the year increased by 4.2%, to SEK 20,686 million (19,858).
- Return on equity was 17.6% (19.1%).
- Return on net assets was 16.6% (17.1%).
- Cash flow before financing activities was SEK 14,294 million (19,560).
- Investments amounted to SEK 18,964 million (16,534), including SEK 6,283 million (5,191) in growth investments and SEK 12,681 million (12,029) in maintenance investments.
- Net debt decreased by SEK 5,667 million to SEK 43,740 million, compared with SEK 49,407 million on 31 December 2006.

¹) Operating profit for 2006 has been adjusted compared with what was reported in the 2006 Annual Report on account of the fact that the interest component of pension cost has been reclassified from an operating expense to a financial expense. For the full year 2007 and 2006, this amount is SEK 811 million and SEK 772 million, respectively. See also Note 2 to the consolidated accounts on page 82.

Electricity and heat generation in 2007 compared with 2006

Electricity generation increased by 1.3% in 2007, to 167.6 TWh (165.4). Hydro power generation increased by 4.0% to 36.6 TWh (35.2), due to improved water levels. Nuclear power generation decreased by 7.1% to 51.3 TWh (55.2), mainly due to the outage at the Brunsbüttel plant in Germany during the second half of the year. (The outage at the 50%-owned Krümmel nuclear power plant in Germany did not affect consolidated volumes, since the plant is not consolidated in Vattenfall's accounts.) Fossil-based power increased by 5.3% to 77.7 TWh (73.8), and wind power increased by 117% to 1.3

TWh (0.6). Electricity generation based on biofuels and waste was unchanged at 0.6 TWh. Heat production increased by 2.8% to 36.2 TWh (35.2). The increases in fossil-based power, wind power and heat production are mainly attributable to the combined heat and power and wind power assets that were acquired in Denmark. These were consolidated by Vattenfall as from 1 July 2006 and were therefore included only for six months in the 2006 year-end accounts. For more information on the respective markets, see pages 124–125.

Important events in 2007:

Strongly expanded investment programme

Early in the year, Vattenfall unveiled an investment programme worth SEK 134 billion for the period 2007–2011 – an increase of SEK 30 billion compared with the five-year period 2006–2010. On 7 February 2008, Vattenfall announced that the investment programme for 2008–2012 will amount to SEK 173 billion.

Launch of global 3C initiative and Global Climate Impact Abatement Map

In January 2007 Vattenfall took two more steps in its work on curbing greenhouse gas emissions toward the goal of contributing to a long-term solution to climate change. Together with representatives from a number of international corporations, Vattenfall presented the global 3C initiative – Combating Climate Change – which calls for climate issues to be integrated into the world of markets and trade. To date more than 50 companies have joined Vattenfall on this initiative. (Read more at www.combatclimatechange.org.) In connection with this, Vattenfall launched an in-depth study – the “Global Climate Impact Abatement Map” – where Vattenfall, in co-operation with McKinsey & Company, has identified potential measures that can be taken around the world to reduce CO₂ emissions by 2030. The analysis shows that the measures needed to curb climate change are feasible. If these measures are put into action, emissions of greenhouse gases can be stabilised at a level that would make it possible to limit global warming to less than 2°C. According to scientific studies, a temperature rise above this level would very likely have catastrophic and unacceptable effects, including drought, epidemics and starvation.

Halving of Vattenfall's CO₂ emissions

In April Vattenfall set the goal of cutting the Group's CO₂ emissions in half by 2030, expressed in g/kWh, using 1990 as the base year – representing a further 20% decrease from today's levels. Vattenfall is developing technologies to en-

able this. For example, in Germany Vattenfall is currently building a pilot lignite-fired power plant that will be virtually free of CO₂ emissions. Also, Vattenfall and EEG, a subsidiary of Gaz de France, signed an agreement to work on a joint carbon dioxide storage project in Altmark in Germany. In June Vattenfall signed an agreement with the Norwegian Ministry of Petroleum and Energy and an industrial syndicate to participate in the work on building a test installation in Mongstad for separating carbon dioxide using post-combustion technology.

Strengthened safety work in nuclear power following incident at Forsmark in July 2006

The incident that occurred at the Forsmark nuclear power plant in Sweden on 25 July 2006 resulted in a comprehensive review of safety issues and the safety culture of Vattenfall's nuclear power operations. In February Vattenfall strengthened its board representation in Forsmarks Kraftgrupp AB (66%-owned by Vattenfall), and a new managing director of that company was installed. Vattenfall's board established a safety committee with the primary task of closely monitoring and reviewing nuclear power safety in the Group, with initial, primary focus on operations at Forsmark. The Board also co-opted an independent, internationally renowned external expert who on behalf of the Board has conducted an in-depth review of management systems, safety, reporting and management functions at Vattenfall's nuclear power facilities.

Vattenfall has heeded the panel's recommendations, and to strengthen safety management, a nuclear safety committee has been established at the Group level along with the position of Chief Nuclear Officer. These measures have been deemed necessary primarily from a business risk perspective. The measures carried out to date create favourable conditions for Vattenfall to continue handling safety issues in accordance with high international standards.

Based on the experiences from the event on 25 July 2006 and other observations, the Swedish Nuclear Power Inspectorate (SKI) has put Forsmark under special oversight. In 2006 and 2007 Forsmark carried out an extensive action programme to restore and further strengthen safety at the plants.

During the first quarter of 2008 – at the request of the Swedish government – the International Atomic Energy Agency (IAEA) conducted an Operational Safety Routine Team evaluation of Forsmark's operations relative to the IAEA's standards. The aim of this type of review is to evaluate operations against international safety norms and to support continuous safety improvement.

Based on the effect of Forsmark's action programme, the conclusions from the IAEA review and own observations, SKI will evaluate if and, in such case, when its special oversight can be discontinued. In connection with the

IAEA's review, a number suggested improvements have been identified, but no new observations have been made in connection with the SKI's special oversight.

As long as a facility is under special oversight, no permit-related applications to extend the operating permit or increase a facility's thermal output will be considered.

Outages at German nuclear power plants

On 28 June Vattenfall's German nuclear power plants – Brunsbüttel and Krümmel – were both scrambled independent of each other. In Brunsbüttel, the scram was caused by a short circuit in a switchyard outside of the power plant, while the shutdown at Krümmel was caused by a fire in a transformer outside of the reactor building. Both events were classified as a zero on the seven degree International Nuclear Event Scale (INES)¹, i.e., deviations with “No safety significance”. The scrams at the nuclear plants worked properly, and no risks arose to people or the environment. Despite this, Vattenfall came under sharp criticism for deficient handling of the outage at the Krümmel plant. Although immediate and extensive information was provided to the authorities, information to the general public was inadequate. Vattenfall appointed an independent commission of technological and scientific experts who, based on the events that occurred, were assigned the task to conduct an analysis and to draft suggestions for improvement. The causes of the scrams have been rectified, but it is not yet clear when the reactors can be restarted. It is Vattenfall's absolute conviction that safety work must always be given top priority, and the plants will not be restarted until all outstanding issues have been addressed and rectified. The outages cost Vattenfall approximately SEK 1,900 million in 2007. In Sweden, too, Vattenfall's nuclear operations were affected by an outage. In connection with the installation of a new generator at Ringhals 3, a short circuit occurred which resulted in a month-long outage.

Changes in Executive Group Management

As a result of the crisis in confidence that arose for Vattenfall in Germany, which was caused by the German management's poor handling of the events at the Brunsbüttel and Krümmel nuclear power plants as well as by the handling of price increases in the retail market, Klaus Rauscher, Head of Vattenfall's German operation, resigned in July. Hans-Jürgen Cramer was appointed acting Head of Business Group Germany. In August, Helmar Rendez, previously Managing Director of Vattenfall's German subsidiary WEMAG, was appointed as the new Head of Vattenfall's Group Strategies staff. He succeeded Lennart Billfalk, who retired. This appointment further internationalises Vattenfall's Executive Group Management.

Lower allocation of CO₂ emission allowances

The national allocation plan for the second trading period, 2008–2012, was decided on during the autumn. In Germany Vattenfall is expected to have an emission allowance deficit of approximately 28–33 million tonnes/year. Assuming a

1) The International Nuclear Events Scale is a means for promptly communicating to the public in consistent terms the safety significance of events reported at nuclear installations. For more information, visit: [www.iaea.org/Our work/ Nuclear safety&security](http://www.iaea.org/Our%20work/Nuclear%20safety&security).

price of EUR 20/tonne, this will give rise to a higher annual cost after tax for Vattenfall of approximately EUR 400–500 million (SEK 3.8–4.7 billion). In Denmark the deficit is expected to amount to 1.8 million tonnes, corresponding to an annual cost after tax of approximately SEK 250 million. In Poland the deficit is estimated to be 0.7–1.0 million tonnes, corresponding to an annual cost of approximately SEK 170 million. Vattenfall's electricity generation in Sweden will be only marginally affected by the new allocation levels, since it is virtually free of CO₂ emissions. However, the Group's heat production in Sweden, which is partly based on fossil fuels, will have added costs of approximately SEK 50 million. In its "Green Package" announced in January 2008, the EU has proposed the full auctioning of CO₂ emission allowances for the power sector starting in 2013, i.e., no free allocation whatsoever. In general, the higher price of emission allowances will result in higher electricity prices.

Fierce competition for electricity customers in Germany

Vattenfall lost nearly 250,000 retail customers in Germany in 2007. This customer exodus was triggered by a price increase announced by Vattenfall as per 1 July and was accelerated by intensifying competition in the retail market and by a growing propensity among German consumers to switch electricity suppliers. The poor handling of information to the public on the scrams at the Krümmel and Brunsbüttel nuclear power plants also contributed to the loss of customers. This notwithstanding, the number of customers lost should be seen in the context of Vattenfall's very high market share to date (more than 80%, corresponding to approximately 2.9 million customers) in Germany's two

largest cities, Hamburg and Berlin. Vattenfall is addressing this through a number of confidence-building measures and an improved product offer, including an attractively priced electricity product that is offered online. To attract new customers, Vattenfall is intensifying its marketing in areas outside Hamburg and Berlin.

Higher market shares in Nordic countries

In the Nordic countries, Vattenfall's concerted effort to improve products and offer attractive contract terms has proved successful. Vattenfall gained market shares from its competitors and now has more than 1 million electricity customers in the Nordic countries. The Group's market share among retail customers in Sweden rose from 13% to 15% during the year, and Vattenfall's customer satisfaction index scores have improved.

New joint unit for coal purchasing established in Copenhagen

In October Vattenfall announced that all purchases of hard coal will be centralised in the Group's trading unit, Vattenfall Trading Services. The new purchasing function, which was started on 1 January 2008 in Copenhagen, is responsible for all physical and financial coal and freight transactions on behalf of the entire Vattenfall Group. Through this move, Vattenfall has taken advantage of cross-border synergies gained through the optimisation of storage and freight capacities.

Lillgrund wind farm on stream

At the end of the year, Vattenfall finished construction of Sweden's largest wind farm and the world's third-largest off-

Specification of investments 2007 and 2006

SEK million	Nordic countries		Germany		Poland		Other		Total	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
Electricity generation										
Hydro power	1,038	1,092	191	104	–	–	–	–	1,229	1,196
Nuclear power	2,935	2,765	82	164	–	–	–	–	3,017	2,929
Fossil-based power	1,355	338	2,830	2,235	–	–	–	–	4,185	2,573
Renewable energy	997	703	–	–	–	–	–	–	997	703
Other	282	191	236	188	–	–	–	–	518	379
Total electricity generation	6,607	5,089	3,339	2,691	–	–	–	–	9,946	7,780
Heat										
Heat	256	486	971	940	520	334	–	–	1,747	1,760
Renewable energy	175	22	–	–	–	–	–	–	175	22
Other	6	8	94	115	–	–	–	–	100	123
Total heat	437	516	1,065	1,055	520	334	–	–	2,022	1,905
Electricity networks										
Electricity networks	3,417	3,352	1,504	1,364	305	303	–	–	5,226	5,019
Other	275	288	150	426	–	–	–	–	425	714
Total electricity networks	3,692	3,640	1,654	1,790	305	303	–	–	5,651	5,733
Share purchases	–82	1,725	198	93	–3	11	–	–1,686	113	143
Acquisition of net assets in Denmark	–	540	–	–	–	146	–	–	–	686
Other, excl. equities	152	234	986	676	54	51	40	12	1,232	973
Total	10,806	11,744	7,242	6,305	876	845	40	–1,674	18,964	17,220
Per cent of total investments	57	68	38	37	5	5	–	–10	100	100

Comments: Of total investments in 2007, maintenance investments in property, plant and equipment accounted to 67% (SEK 12,681 million), broken down as follows: Nordic countries SEK 7,138 million, Germany SEK 4,716 million, Poland SEK 791 million, and Other SEK 36 million. Growth investments accounted for 33% (SEK 6,283 million) and were broken down as follows: Nordic countries SEK 3,670 million, Germany SEK 2,526 million, Poland SEK 85 million and Other SEK 2 million.

shore wind farm – Lillgrund – located in the Oresund Strait between Malmö and Copenhagen. The plant comprises 48 wind turbines with a combined installed capacity of 110 MW and production output equivalent to the electricity consumption of 60,000 Swedish households. The Lillgrund wind farm is a significant part of Vattenfall's investment in renewable electricity generation.

Vattenfall and Sveaskog announce Sweden's largest wind power venture

In November, Vattenfall and the forestry company Sveaskog announced a co-operation arrangement for the largest wind power investment ever in Sweden. The venture could result in 550 wind power turbines with a combined capacity of 1,500 MW. This would correspond to electricity output of 4 TWh, which would account for approximately 3% of Sweden's total electricity generation and meet the electricity needs of 800,000 households.

Vattenfall integrates operations in Germany and Poland

In December Vattenfall announced that it is integrating its German and Polish operations into the new Business Group Central Europe, effective 1 January 2008. As integration of the European energy market gains momentum, Vattenfall must anticipate future challenges and adapt its organisational and leadership structure accordingly. The European energy market is developing from national markets toward regional markets as a step towards a totally integrated market. It is therefore natural that Vattenfall further integrates its activities in Germany and Poland in an effort to strengthen its position for continued growth in Central Europe. Tuomo Hatakka, previously Head of Business Group Poland, was appointed Head of the new Business Group Central Europe.

New quantitative goals for Vattenfall's five strategic ambitions

During the year, Vattenfall set a number of long- and medium-term goals for each of the Company's strategic ambitions (see pages 8–19).

Personnel

Number of employees per Business Group (full-time equivalents)

	2007	2006	Change, %
Nordic countries	9,489	9,158	3.6
Germany	19,656	19,821	-0.8
Poland	2,740	2,836	-3.4
Other	511	493	3.7
Total	32,396	32,308	0.3

The decrease in Germany is mainly due to a divested operation. The increase in Sweden can be credited to the extensive investment programme for renewal of Vattenfall's production facilities, but also to a transfer of employees from the nuclear power company Oskarshamns Kraftgrupp AB (OKG) to Vattenfall's majority-owned company Svensk Kärnbränslehantering AB (SKB). The reduction of personnel in Poland is the result of efficiency-improvement measures.

Joint-Group research and development (R&D)

Vattenfall is further developing its operations in line and in pace with changes in the market and prevailing values in society. R&D and demonstrations of new technologies are an important part in the work on living up to customers' demands and expectations in order to be able to benefit from technological advances and ensure that operations meet the demands that society's institutions make and can be expected to make in the foreseeable future.

Vattenfall's governance model entails that responsibility for the operative activities is fully delegated to the Business Groups and Business Units. Responsibility for specific R&D and similar that is directly coupled to a unit's own operations – as well as responsibility for necessary demonstration activities – rests with the operating units. Group-wide R&D is focused on such disciplines that are long-term and visionary as well as on areas that are of Group-wide importance. The two most important strategies for Vattenfall's long-term R&D – and also the demonstration activities – are the climate issue and the energy sector's role in the changeover to long-term sustainability in society.

Technological advancements are not introduced on a large scale in the operating units until commercial conditions allow.

Vattenfall thus conducts R&D within the framework of its five strategic ambitions: Number One for the Customer, Number One for the Environment, Profitable Growth, Benchmark for the Industry and Employer of Choice.

One billion spent on R&D

In 2007 Vattenfall spent a total of SEK 1,015 million (761) on R&D within the Group. Of this amount, SEK 336 million (349) pertained to Vattenfall's share of the work on developing a safe and approved method for final storage of spent nuclear fuel (which is conducted by the subsidiary SKB), SEK 77 million (36) pertained to R&D in renewable energy, and SEK 280 million (126) pertained to work on reducing emissions of climate-impacting CO₂ from Vattenfall's operations.

Expressed as a share of Group sales, R&D spending amounted to approximately 0.7% (0.5%), which is on a par with Vattenfall's industry peers. This may seem low compared with other industries, but it should be kept in mind that Vattenfall is a technology-using, rather than product-developing, company.

More wind power development projects

Vattenfall's growth strategy calls for major investments in new plants, among other things. Increasing the value and lowering the risks associated with this are important objectives of the Group's R&D activities. For example, several development projects are under way and being started in the area of wind power, where new technologies are tested prior to being employed on a large scale. This is being done in preparation for future investments in major, offshore wind farms. Parallel with this, investments are being made

in both commercial wind power plants and demonstration plants in the operating activities.

In its effort to be a Benchmark for the Industry, Vattenfall's goal is to run its plants and operations more efficiently – in terms of fuel consumption, operating and maintenance costs, and capital utilisation. The goal of many R&D projects is to achieve greater efficiency by lowering costs. For example, methods and knowledge are being developed to enable the use of cheaper types of biofuels in heat production, without this leading to operating problems, such as corrosion.

Climate strategy affects research

The climate issue is the greatest environmental challenge of our time and is the focal point of Vattenfall's work on being Number One for the Environment. Vattenfall's climate strategy comprises four aspects: increasing generation from plants with low CO₂ emissions, including renewable energy and nuclear power; improving the efficiency of generation facilities and networks; the carbon capture and storage (CCS) project; and being an active proponent of a global trading system for CO₂ emission allowances. R&D is a cornerstone in the first three aspects. The operating units' demonstration activities are an important part of transferring technological advances from R&D to their implementation in future commercial operation.

Vattenfall is investing in new and existing plants that are based on renewable energy sources – particularly hydro power, biofuels and wind power. However, the Group is also conducting R&D on other forms of renewable energy that could have growing impact on tomorrow's energy system, such as wave power.

A great deal of the energy generated by power plants is used in internal processes or disappears during the course of transmission and distribution. Reducing such losses would eliminate emissions to a corresponding degree.

Pilot CCS project

Vattenfall's carbon capture and storage (CCS) project is a vital part of the work on being Number One for the Environment, but also for the work on being a Benchmark for the Industry. This programme, which spans many years, is based on working with equipment manufacturers and other partners to scale up and demonstrate cost-effective technologies for capturing and permanently storing the carbon dioxide that is formed in the combustion of lignite, for example. An important step in this direction is the construction of a pilot plant employing oxyfuel technology adjacent to Vattenfall's Schwarze Pump power station in Germany. This plant is expected to be commissioned in 2008.

In 2007 Vattenfall decided to further accelerate development of CCS technology by being the third party to join the Norwegian TCM (Test Centre Mongstad) project. This will start out with the construction of a test plant for separating carbon dioxide using post-combustion technology and thereafter progress to a full-scale plant for separating and storing the carbon dioxide under the ocean floor in the North Sea.

In 2007 Vattenfall also signed an agreement with the German company EEG (a subsidiary of Gaz de France) on co-operation surrounding the storage of carbon dioxide in the depleted gas field in Altmark. Here, the carbon dioxide will be used to recover remaining gas reserves. This operation will provide answers as to whether this solution in the future will be suitable for permanent storage of carbon dioxide.

Also in 2007, work continued on preparing for the large-scale demonstration plants that Vattenfall intends to build for separating, transporting and storing carbon dioxide. The first demonstration plant is expected to be completed for commissioning in 2015.

Greater focus on customer service and distribution

Key customer demands on Vattenfall's operations include competitive prices, availability, simplicity, comprehensible and predictable billing, and customer service contacts. R&D also plays a part in Vattenfall's strategy to be Number One for the Customer. Efficiency and low generation costs are essential prerequisites for keeping wholesale electricity prices down.

To increase availability in electricity distribution, Vattenfall continues to replace overhead transmission lines with underground cables. Parallel with this, R&D work is being conducted on ways to quickly and efficiently locate problems with cables and thereby minimise outages when problems occur. This is considerably more difficult than in overhead lines, since cables are located underground.

Vattenfall is investing billions of kronor in new electricity meters. R&D projects are being conducted to find new applications and functions for meters that customers can benefit from. As part of its competence succession activities, Vattenfall is engaged in extensive R&D in collaboration with universities and colleges in various key areas in all countries in which Vattenfall has operations. By supporting high-calibre university research in such areas as nuclear power, hydro power and electricity, Vattenfall is helping to ensure high quality instruction in these areas. This is also helping Vattenfall in its aspiration to be perceived as an Employer of Choice – the Company's fifth strategic ambition.

Impact of environmental issues on the Group

The importance of environmental issues in society has such impact today that the Group's earnings and financial position are affected by or can be affected by how the Company chooses to act. The strong stance taken by European politicians for a sound environment, the changeover to long-term sustainability in society and curbing climate change has affected and will continue to affect the conditions for the Company's current and future operations.

As a result of new findings regarding the environment, customers and other stakeholders expect the Company to act. The impact on the Company's position and earnings are initially indirect. In pace with ever stronger demands being made by the public on environmental concerns and rising expectations for aggressive environmental work,

these demands are gradually becoming legal standards that must be met. In recent years, economic regulatory tools have also been adopted which have a direct coupling to the Company's cash flow.

Vattenfall is therefore working proactively in an effort to discover new environmental findings at an early stage and thereby be able to form its own views of the problems and be able to better respond to tomorrow's customer demands, legislation and economic regulatory tools related to environmental policies.

Examples of such regulatory tools that affect the Group's operations include the European system of trading in CO₂ emission allowances, sulphur taxes assessed in certain countries, and the fee system for emissions of nitrous oxides in Sweden. Most other environmental issues eventually lead to bans or restrictions. Many stricter standards are being implemented within the framework of the permit-issuing process in the environmental legislation in the respective countries.

Environment-related economic regulatory tools and issuances of permits for operations that require permits are the factors that have the greatest relevance for the Company's earnings and financial position. The trading system for CO₂ allowances is the environment policy issue that has the greatest impact on the Company's position in both the long and short term.

The Group conducts operations in Sweden, Finland, Denmark, Germany and Poland that require permits in accordance with national legislation in the respective countries. Significant such operations include electricity generation, heat production and, in Germany, lignite mining in four open-cast mines.

The Group conducts considerable network activities, including distribution of electricity under concessions held in Sweden, Finland, Germany and Poland, and transmission on the high voltage grid in Germany. The Group also conducts its own rail activities in association with lignite mining in Germany.

Electricity and heat generation affect the environment

The greatest environmental impact of the Vattenfall Group's operations results from the generation of electricity and heat and, in Germany, from coal mining in open-cast mines. The main environmental impact of Vattenfall's nuclear power plants is the creation of radioactive waste, while for combustion plants the main environmental impact is from emissions of climate-affecting carbon dioxide and acidic compounds. The main environmental impact of hydro power, wind power and the network operations, as well as of open-cast lignite mines, is land use. Other environmental impact includes the production of waste and solid residuals, and the use of water for cooling at nuclear power plants.

National and European goals for the changeover of energy supply, with a higher share of renewable energy, affect the Group. The same applies for goals for reducing CO₂ emissions.

Sweden's parliament has set 17 TWh as the goal for expansion of wind power and other renewable energy by 2016. Vattenfall's owner has declared that Vattenfall shall act toward the achievement of this goal. In an appendix to the Articles of Association it is stated that Vattenfall should be able to account for at least 5 TWh of this increase by 2010.

The aggregate environmental impact of operations in 2007 was essentially unchanged compared with a year earlier. Trends in environmental impact between two years are overshadowed by fluctuating energy demand caused primarily by outdoor temperatures and socioeconomic conditions. Viewed over longer periods of time, the trends become clearer. Specific emissions of carbon dioxide (per kWh) from plants currently owned by Vattenfall are 30% lower today than in 1990 for both electricity and heat. Emissions of other compounds have decreased even more. Vattenfall's ambition is to continue reducing its emissions. In 2007 the goal was set that Vattenfall shall cut its CO₂ emissions in half by 2030, compared with 1990 levels. In addition, the sub-goal was set for a 3% reduction in CO₂ emissions by 2010 compared with 2007 levels.

Electricity generation is conducted in numerous large and small hydro power plants, nuclear power facilities, wind power plants and in combustion facilities. Some of the hydro power plants are pumped storage plants. The Group also has an ownership stake in the Stade nuclear power plant in Germany, which was decommissioned in 2003.

Heat production is conducted in numerous large and medium-sized combustion plants primarily in Germany, Denmark and Poland, but also in Sweden and Finland. In Germany, construction began in 2007 of a new lignite-fired power station for electricity generation at an existing power plant. This new lignite-fired power station will entail resumed lignite mining in a nearby open-cast mine. The necessary permits to resume mining have been obtained. In Hamburg, a new coal-fired CHP plant is being built to replace existing and previously decommissioned CHP plants.

In 2007 construction continued on a pilot plant employing the separation of fossil fuel-based CO₂ in Germany. This pilot facility is scheduled to be commissioned in 2008. The captured carbon dioxide will be permanently stored in bedrock. The power station, CHP plant and pilot plant have all been granted permits under German legislation. In Denmark, construction has begun of a new biofuel-fired boiler in Odense, while work has also been started on converting an existing coal-fired boiler in Copenhagen to biofuel. Both of these plants have been granted permits under Danish legislation.

In the Oresund Strait, Vattenfall's 48 wind turbines began generating electricity in 2007. Additional offshore wind farms are planned at the Kriegers Flak site in the southern Baltic Sea and in the southeast corner of the Baltic.

Poland's entry to the EU in 2004 has entailed the adaptation of the country's national environmental laws to the EU's legislation. As a result, Vattenfall's plants in Warsaw that require permits will become subject to review in the

years ahead in accordance with transitional rules for existing plants. Preparations are currently in progress to ensure compliance with the new regulations in time.

The Parent Company conducts operations that require permits in accordance with the Swedish Environmental Code. These consist primarily of combustion plants for electricity generation and heat production, and wind power plants. The Parent Company has electricity and heat generation plants that require permits and registration. The Parent Company also has wind power turbines that are located separately as well as in groups; all of these require permits or registration. Further, the Parent Company has hydro power plants with associated water regulation facilities that are subject to review outside of the jurisdiction of the Swedish Environmental Code. The Parent Company conducts fish farming requiring permits.

The terms for a few of the Parent Company's small heat plants were subject to review in 2007. The Company's earnings and financial position are not dependent on the outcome of these reviews.

The Group's Swedish subsidiaries also conduct operations requiring permits in accordance with the Swedish Environmental Code. Forsmarks Kraftgrupp AB and Ringhals AB generate electricity in nuclear power plants. SKB operates an installation for the final storage of low- and medium-level nuclear waste in Forsmark and an installation of intermediate storage of spent fuel in Oskarshamn. In several subsidiaries, electricity and heat are generated primarily in combustion plants. The Group conducts network operations in Swedish subsidiaries for the distribution of electricity, in accordance with concessions.

Along with the network operations, generation of electricity in hydro and nuclear power plants constitutes a central part of the Parent Company's and the Swedish operations. Generation of electricity in hydro power plants is conducted primarily by the Parent Company. Other significant operations are conducted primarily by subsidiaries.

Personnel matters

Competence development

Vattenfall works according to a yearly, strategic competence succession process to ensure that the Company will continue to have access to the competence that is needed for its operations. This annual process, which is used throughout the organisation, couples business plans with future competency needs. Deviations are analysed and action plans are drawn up. Competence development is conducted primarily in the day-to-day activities and through participation in various projects. In addition to this, competence development is conducted at both the Group and local levels. At the Group level, Vattenfall has a Group-wide leadership development programme. The aim of this programme is to spread knowledge about the Group's strategies and values, and to promote a shared understanding of Vattenfall's company philosophy and leadership criteria. The goal is to support managers in their role as leaders and in their personal development, and to

stimulate network-building in an international environment. These programmes are offered to managers at various levels. In addition, managers are offered a Group-wide function-focused programme.

Employee turnover

Employee turnover, defined as the number of employees who have left their positions within the Group in relation to the total number of employees, was 3.9% in 2007 (3.9%).

Collective agreements

The right to co-determination is regulated primarily at the country level and is based on the respective countries' labour market laws. In all Business Groups and at the Group level, Vattenfall works with employee representatives and local unions. At the Group level this work is conducted primarily via the European Works Council (EWC-Vattenfall). Collective agreements are made locally in the respective countries as needed.

Corporate Social Responsibility report

Vattenfall publishes an annual Corporate Social Responsibility (CSR) report in accordance with the Global Reporting Initiative (GRI) guidelines. The aim of this report is to provide a balanced picture of Vattenfall's efforts with regard to the environment, society and the economy. For more information, see page 35 of this Annual Report.

Parent Company

The accounts of Vattenfall AB, the Parent Company, are prepared in accordance with Swedish GAAP, i.e., in accordance with the Swedish Annual Accounts Act and recommendation RFR 2.1 – Reporting for legal entities, issued by the Swedish Financial Reporting Board. RFR 2.1 takes effect starting in 2008 but has been applied prospectively. Vattenfall applies the exemption rule regarding IAS 39 and RFR 2.1.

Sales amounted to SEK 25,233 million (26,244).

Profit before appropriations and tax was SEK 5,532 million (16,106). The decrease is mainly attributable to a lower result from participations in Group companies, totaling SEK –4 billion (dividend received from Ringhals AB pertaining to compensation for Barsebäck 2), and to a change in exchange rate effects of SEK –5.4 billion pertaining to the Parent Company's net investments in foreign operations. These exchange rate effects are reported at the Group level against equity, net after tax.

Investments for the year amounted to SEK 1,113 million (2,353).

Cash and cash equivalents amounted to SEK 352 million (181). Funds in the Group account managed by Vattenfall Treasury AB amounted to SEK 22,667 million (30,965).

The work of the Board of Directors in 2007

Board meetings are conducted for the most part in accordance with a set plan laid out in the Rules of Procedure.

This prescribes that seven regular meetings are to be held each year. In addition to the regular meetings, board meetings can be summoned if the need arises. According to the Rules of Procedure, at least one meeting each year is to be held at a place other than the head office. In 2007 a meeting was held in Forsmark, which was combined with a tour of the nuclear power plant there. Another meeting was held in Hamburg, which was combined with a tour of the Krümmel nuclear power plant.

The Board had 13 meetings in 2007, including the statutory meeting. The Board evaluates its work once a year as well as the CEO's performance through a special process. In 2007 the Board established a safety committee tasked with closely monitoring and reviewing nuclear safety within the Group. The Safety Committee held four meetings during the year. The Compensation Committee, which was established in 2006, held one meeting in 2007. The Board also has an audit committee, which held four meetings in 2007. Vattenfall AB's auditors were present at all of these meetings, at which they presented their review of the year-end report and interim reports, among other things. For further information on the work of the Board and the Corporate Governance Report, see pages 46–55.

Outlook for 2008

Apart from the availability of its generation facilities, the single most important factor affecting Vattenfall's earnings is the wholesale price of electricity. Wholesale prices fluctuated sharply in 2007. However, by hedging future electricity generation to a considerable extent, Vattenfall can smoothen out the effect of fluctuating wholesale electricity prices on profits. In 2007, a decision was made on national allocation plans for CO₂ emission allowances for the second trading period, 2008–2012. As a result of these decisions, Vattenfall will incur a significant deficit of emission allowances, which will lead to higher costs. However, it is currently not possible to quantify the total impact on Vattenfall's earnings, since it is unclear to what extent wholesale electricity prices will be affected. See the sensitivity analysis on page 72.

Based on a decision by Vattenfall AB's board in favour of an investment programme designed to extend the useful life of Swedish nuclear power plants, starting in 2008 the depreciation period will be extended from 40 years, to 50 years. The change of the depreciation period has no retrospective effect.

AGM proposals

Proposed distribution of profits

See page 120.

Compensation of senior executives, other managers and employees

The Board proposes that the Annual General Meeting approve the following principles:

- The starting point for compensation and other terms of employment for members of the Vattenfall's Executive Group Management in Sweden consists of the Swedish government's guidelines on employment terms and conditions (October 2003) for persons employed for senior executive positions in state-owned companies.
- Salaries and other benefits shall be competitive but not higher than salaries and benefits in peer companies.
- No variable salary component or bonus shall be awarded to the Chief Executive Officer. For other managers and employees in the Swedish part of the Group, the maximum variable salary to be applied shall correspond 16.7% of their normal base salary. The normal base salary for certain executives can be decreased by 16.7%, depending on performance.

All personnel employed in Sweden shall be covered by an incentive programme. The results of each unit and/or individual performance shall be measured.

The owner's long-term requirement for increased value creation shall be a common goal. Starting in 2008, this also encompasses, in addition to long-term financial value creation, goals within the five strategic ambitions that Vattenfall is working in accordance with. For the Executive Group Management (excluding the Chief Executive Officer) and for the heads of Business Units (approximately 20 persons in total), long-term targets are set for a period of three years, 2008–2010, with the possibility to receive an additional four months' salary for this period upon achievement of the goals in the strategic areas.

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.

Changed composition of Executive Group Management

Effective 1 February 2008, Vattenfall's Executive Group Management has the following composition

Lars G. Josefsson	President and CEO
Jan Erik Back	CFO
Tuomo Hatakka ¹	Head of Business Group Central Europe
Hans-Jürgen Meyer ²	Finance Director of Vattenfall Europe AG
Hans von Uthmann	Head of Business Group Nordic
Hélène Biström ²	Vice Head of Business Group Nordic
Helmar Rendz	Head of Group Function Strategies
Ann-Charlotte Dahlström	Head of Group Function Human Resources
Carolina Wallenius ³	Head of Group Function Communication

1) Head of Business Group Poland prior to 2008.

2) New member of Executive Group Management.

3) Succeeds Knut Leman, who has retired.

RISKS AND RISK MANAGEMENT

Achieving Vattenfall's strategic ambitions requires economic value creation and profitable growth. This takes place within the framework of safe energy generation in all contexts. Achieving these ambitions is important in Vattenfall's continued work on being competitive, creating value, being a positive force in the industry and contributing to sustainable development in society. Vattenfall creates economic value when it exceeds the required rate of return on net assets with a set level of balanced risk.

Risk organisation

Vattenfall's operations are exposed to a number of risks which affect earnings and the balance sheet. To manage these risks, Vattenfall has established an organisation and risk management process. Governance takes place through a set strategy and established body of rules. To be able to effectively manage manageable risks, methods and models are being continuously developed to measure and evaluate risks and their management.

The Board of Directors has overarching responsibility for internal control and risk management at Vattenfall, based on a uniform definition of the risks. The Board has, in turn, given Vattenfall's management a risk mandate. Management allocates this mandate to Vattenfall's business units. Each unit manages its own risks and has some room to manoeuvre within its respective mandate, and is responsible for ensuring compliance with reliable methods for measuring risks. The results achieved by the units are followed up on a continuous basis and reported to the executive management in accordance with set reporting routines. Risk reporting and the utilisation of mandates are conducted by an independent risk control function.

The Group's risk management is co-ordinated by a Risk Committee (VRC) under the direction of the CFO. This committee is tasked with reviewing principles and mandates, and approving risk instructions. In addition to the VRC, Vattenfall has several local risk committees and risk-specific committees; for example, environmental risks are co-ordinated and evaluated by the Group's Environmental Committee.

Risks at Vattenfall

Political risks, operational risks and environmental risks are general in nature and exist in all units throughout the Group. The more specific risks in each part of the value chain are discussed on page 71. Insurable risks are managed centrally by Vattenfall Insurance. Financial risks are reported in Note 36 to the consolidated accounts.

Political risk ①

Political risk is defined as the commercial risk that can arise as a result of political decisions. Examples of this are price regulations in electricity distribution and transmission, uncertainty regarding a new political majority, or changes in finance policies. In connection with acquisitions and other investments, this type of risk is managed by adjusting the cost of capital.

Another type of political risk stems from changes in the

rules governing the energy industry. These can concern such factors as changed taxes, environmental surcharges, changes in how natural monopolies are regulated, and political goals for the composition of the energy system. This type of risk is more difficult to predict and protect against. To mitigate this risk, Vattenfall conducts active business intelligence activities and maintains contacts with decision-makers in relevant markets. Vattenfall also belongs to various national and international trade organisations.

Operational risk ②

Operational risk refers to the risk of incurring financial loss, or a loss of trust, due to errors or defects in the Company's administrative routines.

Operational risks can be divided into the following categories:

- Administrative risks – the risk of loss due to defects in the Company's division of responsibility, competence, reporting routines, risk measurement and evaluation models, and in control and follow-up routines
- Legal risks – the risk of loss arising from the non-fulfilment of contracts due to shortcomings in documentation, counterparties lacking the right to enter into contracts or uncertainties regarding contract validity
- IT risks – the risk of loss due to defects in IT systems
- Nuclear safety – the risk of outages due to deficient safety work and a deficient safety culture (read more on pages 30–31)

To limit operational risks at Vattenfall, each business unit is responsible for ensuring that well-documented routines, reliable IT systems and satisfactory internal controls are in place. For more information about internal control, see page 55.

Environmental risk ③

Vattenfall works systematically to maintain control over the environmental risks that the Company's operations can be considered to give rise to. Environmental risk work is also conducted as part of the Company's ambition to be Number One for the Environment.

The general concept of "environmental risk" can be broken down into two categories, environmental risks and environmental liabilities.

Environmental risks

A combination of, and the probability of, an activity that

Definition of risks (Management if these risks is described in the accompanying text)

General risks for all business units

Political risk ¹

The risk of financial loss stemming from political decisions.

Operational risk ²

By operational risk is meant the risk of errors or defects in the Company's administrative routines leading to economic loss or loss of trust.

Environmental risks and environmental liabilities ³

By environmental risks is meant the probability of accidents and defects in operations and their impact on the environment. By environmental liabilities is meant identified environmental problems in which demands for rectification measures can be expected.

Specific risks along the value chain

Generation

Electricity price risk ⁴

Earnings risk stemming from changes in the wholesale price of electricity.

Plant risk ⁵

Vattenfall's generation plants can be damaged by incidents and shut-downs, which as a rule also give rise to costs caused by outages.

Fuel price risk ⁶

Risk of loss due to changes in the price of the fuels that Vattenfall uses in its generation plants. Measurement and management of this risk are conducted by the respective generation units.

Investment risk ⁷

The risk of loss caused by investments losing value (such as due to changes in electricity prices, delays, increased risks, etc.)

Volume risk ⁸

Volume risk is an earnings risk due to uncertainty of available generation capacity, such as water run-off and the related uncertainty regarding future hydro power generation.

Trading

Price area risk ⁹

Price area risk arises when electricity prices differ between geographic areas due to shortages in transmission between areas. This risk is managed centrally by Vattenfall Trading Services.

Electricity price risk ⁴

Risk of loss due to changes in the wholesale price of the electricity that Vattenfall conducts physical and financial trading in.

Credit risk ¹⁰

Credit risk arises, for example, in transactions with customers and is defined as the risk of a counterparty failing to fulfil its obligations. Measurement and management of credit risk is conducted within the respective business units.

Currency risk ¹¹

Currency risk pertains to the risk of a negative impact on the consolidated income statement and balance sheet caused by changes in exchange rates.

Sales

Electricity price risk ⁴

Earnings risk stemming from changes in the wholesale price of electricity sold to customers.

Credit risk ¹⁰

Credit risk arises, for example, in transactions with customers and is defined as the risk of a counterparty failing to fulfil its obligations. Measurement and management of credit risk is conducted within the respective business units.

Volume risk ⁸

This is defined as deviations in delivered volumes compared with expected volumes for customers, caused by weather and economic factors. Vattenfall uses simulation models to measure volume risk.

Networks

Plant risk ⁵

The risk of damage to Vattenfall's transmission grid and distribution networks.

Credit risk ¹⁰

Credit risk arises, for example, in transactions with customers and is defined as the risk of a counterparty failing to fulfil its obligations. Measurement and management of credit risk is conducted within the respective business units.

results in "significant environmental damage". Significant environmental damage is defined in this context in accordance with Article 2 in the Environmental Liability Directive (2004/35/CE).

Environmental liabilities

Cases where emissions, use of substances, or the use of technology in accordance with currently applicable environmental legislation requires rectification measures and/or where demands are made on financial reporting of provisions.

The consequences of an environmental risk can entail the following, for example:

- Contamination/clean-up costs
- Impact on the Vattenfall brand
- Opinions and policies that lead to more cumbersome permit application processes and production limitations

The business units' reporting on environmental liabilities covers the following areas, among others:

- Air, water and ground pollution
- Oil-filled cables with lead encapsulation
- Mercury in electrical equipment and fumes
- Insulation in electrical equipment
- Asbestos in thermal power plants and CHP plants
- Magnetic fields from transformers and power lines

Management

At the end of each year a compilation is prepared of the Company's environmental risks and environmental liabilities, and of the provisions and actions that are needed. This compilation is based on joint-Group reporting according to definitions that are decided on internally. This analysis includes a general evaluation of the risk situation and the trend in recent years.

Much of the work on continuously preventing and con-

trolling environmental risks is conducted locally and is based on the knowledge and experience that exists in the Group's units. In addition to this, the business units are responsible for identifying and expressing risks and liabilities in accordance with the joint definitions in order to create an overall picture for the Group.

Vattenfall views preventive action in this area as a way of strengthening the Group's competitive edge in the long term. To give an example, in the German companies, funds have been reserved for cleaning up contaminated land and for restoring land after coal mining. This also applies for areas in which action plans have been drawn up in consultation with the pertinent authorities.

Electricity price risk 4

Electricity price risk is the risk that has the greatest bearing on Vattenfall's earnings and is thus the most important factor for value creation. A sensitivity analysis of changes in the wholesale price of electricity is provided in the table at right.

Electricity prices are determined by fundamental factors such as water levels, available generation capacity, fuel prices, prices of CO₂ emission allowances and electricity consumption. Continuous analysis of these factors is crucial for the successful management of electricity price risk. (Read more about electricity prices on pages 24–25.)

Vattenfall hedges its generation and sales using physical and financial electricity forward contracts available in the market. Such hedging is done while taking into account liquidity in the market at different periods in time. As the sharp fluctuations electricity prices have shown in recent years, forward trading is an important way of smoothing out and balancing the major price risks in operations. The amount that is hedged varies, and the Group hedges in accordance with established mandates and generally for three years ahead in time (see hedging chart below). Vattenfall enters into long-term contracts with major industrial customers. These contracts pertain to time horizons in which there is no possibility to hedge prices in the market and which stretch as far as 2019. Total volume for the period 2011–2019 amounts

to 95 TWh. The business units conduct their hedging in Vattenfall's various markets through Vattenfall Trading Services, which hedges its own positions in external markets, such as the Nordic electricity exchange (Nord Pool) and the European Energy Exchange (EEX) in Germany.

The mandates allocated to the various business units regulate how large of an electricity price risk is acceptable. Exposure is followed up in relation to the mandate on a daily basis. To measure electricity price risk, Vattenfall uses methods such as Value at Risk (VaR) and Profit at Risk (PaR) along with various stress tests.

Sensitivity analysis

Market-quoted price risks	Change	Impact on profit before tax, SEK million for the three-year period 2008–2010
Electricity	+/-10%	+/- 13,500
Coal	+/-10%	+/- 3,000
Gas	+/-10%	+/- 2,000
CO ₂	+/-10%	+/- 800
Uranium	+/-10%	0

The sensitivity analyses of Vattenfall's profit based on variations in various market-quoted risks are performed independent of each other - each parameter is calculated separately without any connection to the other risks. Most of the parameters affect Vattenfall's earnings with respect to both income and expenses. The reason for this is the pricing connection that exists between the price of coal/gas/oil/CO₂ and wholesale electricity prices. The connection between these is described in more detail on pages 24–25.

Plant risk 5

Vattenfall's largest insurable risks are associated with the operation of power generation and heat production plants. Vattenfall's plants can be damaged as a result of incidents and breakdowns which, as a rule, give rise to substantial costs due to outages. Plant risk also includes damage to Vattenfall's transmission grid and distribution network.

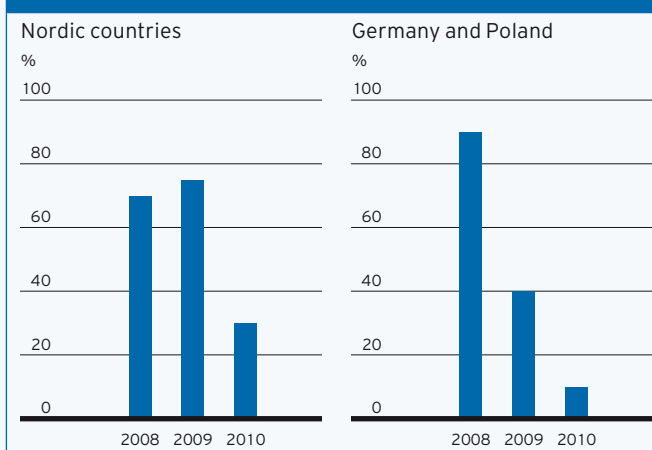
Plant risk can be reduced through loss-prevention measures, good maintenance, training, advanced planning in the renewal of Vattenfall's plants and good administrative routines. An example of a maintenance investment is Vattenfall's investment programme in Swedish nuclear power facilities, worth SEK 40 million during the next 20 years, aimed at achieving long-term high operating safety and extended useful life. For electricity generation based on nuclear power, having well-managed facilities with few outages is an essential part of maintaining a high level of safety.

Plant insurance

The Group protects itself against major economic loss to the greatest extent possible through insurance. Vattenfall's nuclear power plants in Sweden have insurance cover for property damage through EMANI, a European mutual insurance association. The Nordic nuclear insurance pool participates in this insurance programme in Sweden and also writes nuclear liability insurance. The German nuclear liability risk is insured by the German Mutual Atomic Energy Reinsurance Pool and by the mutual undertaking between German power plant operators.

Vattenfall Insurance, a captive company, provides the non-nuclear facilities of the Swedish and German units and companies with insurance cover against property damage

Vattenfall's hedging position in various markets as of 31 December 2007



and consequential losses. The Group's companies in Finland and Poland are insured through their respective local insurance markets.

Electricity transmission and distribution networks are uninsured, with the exception of transformer stations and switchgear. The reasoning is that these risks are not generally covered by most insurance providers. Vattenfall continually works to reduce electricity network vulnerability.

In Sweden, liability for damage to third parties as a result of dam accidents is strict and unlimited. Vattenfall and other hydro power generators have therefore taken out dam liability insurance together that utilises all available capacity in the insurance market.

Vattenfall Reinsurance S.A. in Luxembourg reinsures part of the insurance commitments of Vattenfall Insurance. Economies of scale and direct access to the international reinsurance market help keep total insurance costs low.

Fuel price risk 6

Measurement and management of fuel price risk is conducted within the individual generation units. Fuel prices are affected by macroeconomic factors, among other things. Vattenfall manages fuel price risk by forecasting and analysing price trends. For example, financial and physical instruments for coal and oil are used to smoothen earnings over time. However, most of Vattenfall's coal-fired plans use lignite from Vattenfall's own mines. For coal-fired electricity generation, hedges on electricity and coal prices are coordinated to safeguard margins. Uranium is used as fuel in Vattenfall's nuclear power plants. This price risk is limited, however, since the uranium fuel constitutes a relatively small portion of the generation cost.

Investment risk 7

Vattenfall is a highly capital-intensive company and, consequently, has an extensive investment programme worth SEK 173 billion from 2008 to 2012 (see page 14).

Prior to every investment decision, a risk analysis is performed. By simulating various outcomes of price, cost, delays and cost of capital, the risks associated with each individual investment are assessed.

Since 2005 Vattenfall has a Joint-Group function – Capacity Management – which focuses on growth areas such as electricity and heat generation to ensure that capital is invested in a way that will maximise long-term economic value. In addition to a strategic investment “roadmap”, a list of priority investment projects is continuously updated, above all to guide the Executive Group Management in its investment decision-making process. Projects are ranked according to a number of main criteria: support of Vattenfall's overarching strategic orientation, consequences for the existing generation portfolio, risk profile and profitability.

Volume risk 8

In the generation activities, Vattenfall manages its volume risk through analysis and forecast activities concerning

precipitation and snowmelt. Analysis models are based on extensive weather history, among other things.

Volume risk arises also in the sales activities as deviations in anticipated and actual delivered volumes to customers. Vattenfall manages volume risks by improving and developing forecasts of electricity consumption. Another way is to transfer this risk to customers when drawing up the terms of contracts with customers or by including this risk into the customers' rates.

Price area risk 9

Price area risk arises when the price of electricity differs between various geographic areas. Vattenfall's price area risk is centralised and is managed by Vattenfall Trading Services through hedging in the respective areas in which delivery is to take place. In the Nordic countries, the Nord Pool electricity exchange provides financial instruments – area swaps – which can be used to manage price area risk. Vattenfall Trading Services is also a market maker on Nord Pool. Through this undertaking, liquidity is ensured in these financial instruments, and Vattenfall also helps spread risks for other operators.

Credit risk 10

Vattenfall uses external rating information, where available, to manage and limit its credit risk. In other cases, internal models are used to establish the creditworthiness of its counterparties. Individual limits are established for each counterparty, and each counterparty is assessed on a regular basis. Exposures are followed up in relation to the credit limits on a daily basis. If necessary, additional credit assurances are demanded in the form of a guarantee from the Parent Company or a bank, for example. In cases where master agreements are entered into, net calculation of debts and receivables for an individual counterparty are permitted. In cases where Vattenfall has more than one master agreement with the same counterparty, a master netting agreement is desirable in order to calculate the net debt and receivable amount, even when trading in different commodities, such as electricity, coal and gas. When contracts are made in marketplaces, such as Nord Pool or EEX, which offer central counterparty clearing, the risk is in the market instead. For a quantification of credit risks, see the diagram in Note 36 to the consolidated accounts.

Financial risks

The Group's financial risks are managed primarily by Vattenfall Treasury AB (the Group's internal bank). These finance operations aim to provide cost-effective management of the Group's financial risks. The Group's funding, investments and currency trading are carried out primarily by Vattenfall Treasury AB and, to a lesser extent, by Vattenfall Europe AG. The Group's liquidity is centralised in Group cash pool systems. Speculative investments are made to a limited extent within set risk limits. Financial risks consist primarily of liquidity risk, interest rate risk, currency risk and credit risk. For more detailed description and quantification of financial risks, see Note 36 to the consolidated accounts.

CONSOLIDATED INCOME STATEMENT

Amounts in SEK million, 1 January – 31 December	Note	2007	2006
Net sales	6, 7	143,639	135,802 ⁷
Cost of products sold ¹	8	-103,404	-96,428 ^{7,8}
Gross profit		40,235	39,374
Other operating income	9	1,782	2,319
Selling expenses		-4,915	-5,649 ⁸
Administrative expenses		-7,578	-7,535 ⁸
Research and development costs		-1,015	-765
Other operating expenses	10	-924	-1,257
Participations in the results of associated companies	7, 24, 50	998	1,334
Operating profit (EBIT)²	7, 11, 12, 13, 48, 49	28,583	27,821
Financial income ³	14	2,276	3,839
Financial expenses ⁴	15	-6,926	-6,135 ⁸
Profit before tax⁵		23,933	25,525
Income tax expense	17	-3,247	-5,667
Profit for the year⁶		20,686	19,858
Attributable to			
Equity holders of the Parent Company		19,769	18,729
Minority interests	18	917	1,129
Total		20,686	19,858
Earnings per share			
Number of shares in Vattenfall AB, thousands		131,700	131,700
Earnings per share, SEK		150.11	142.21
Dividend, SEK million		8,000 ⁹	7,500
Dividend per share, SEK		60.74 ⁹	56.95
Supplementary information			
Operating profit before depreciation and amortisation (EBITDA)		45,821	43,938
Financial items, net excl. discounting effects attributable to provisions and return from the Swedish Nuclear Waste Fund		-3,040	-2,390
1) Of which, depreciation, amortisation and impairment losses		-16,486	-15,007
2) Of which, depreciation, amortisation and impairment losses		-17,238	-16,117
2) Including items affecting comparability attributable to:			
Capital gains/losses, net		86	373
3) Including returns from the Swedish Nuclear Waste Fund		843	2,106
4) Including interest components related to pension costs		-811	-772
4) Including discounting effects attributable to provisions		-2,453	-2,012
5) Including items affecting comparability attributable to:			
Capital gains/losses, net		97	384
6) Including items affecting comparability stated above adjusted for tax		136	386
7) Net sales and Cost of products sold for 2006 are adjusted compared to previously published information in Vattenfall's 2006 Annual Report. See Note 2 to the consolidated accounts, Accounting Principles.			
8) Interest components related to pension costs for 2006 are reclassified compared to previously published information in Vattenfall's 2006 Annual Report. See Note 2 to the consolidated accounts, Accounting Principles.			
9) Proposed dividend.			

Comments

Net sales and earnings

Net sales rose 5.8% to SEK 143,639 million (135,802). The increase is attributable to Germany, where external net sales rose by SEK 7.6 billion, mainly due to higher EEG-related income (Erneuerbare-Energien-Gesetz – the German renewable energy law). This income was offset by higher costs for sold products and is thus essentially earnings-neutral. For the Nordic countries, external net sales decreased by SEK 3.8 billion. For the Other segment, which includes Energy Trading, external net sales increased by SEK 3.8 billion.

Cost of products sold rose 7.2% to SEK 103,404 million (96,428), mainly due to EEG costs in Germany. These costs, which stem from the wind power feed-in to Vattenfall's transmission grid in Germany, are passed on to end customers with a certain time delay and are thus essentially earnings-neutral. Higher fuel costs, impairment charges for power and network assets in Germany, and impairment losses for a combined heat and power plant in Finland also contributed to the increase in the item Cost of products sold.

Depreciation increased by 5.9% to SEK 15,432 million (14,574). See Note 11 to the consolidated accounts. The decrease in the item Other operating income is mainly due to a decrease in realised exchange rate gains in the amount of SEK 404 million, to SEK 80 million. Participations in the results of associated companies decreased to SEK 998 million (1,334).

Operating profit rose 2.7% to SEK 28,583 million (27,821) and is mainly attributable to German electricity generation and can be credited to high availability at coal-fired plants and higher prices received on the European Energy Exchange in Germany. In the Nordic countries, hedging helped offset the effects of lower spot prices, but operating profit nevertheless fell by 5.2%. Costs for the major storm "Per" at the start of the year, restructuring costs in the Distribution business unit and impairment losses for a combined heat and power plant in Finland, together totalling SEK 645 million, were charged against income for the Nordic countries. Earnings in Poland improved slightly, but mainly due to currency effects. In all, Vattenfall's operating profit was charged with impairment losses of SEK 1,850 million, mainly pertaining to the pumped storage power plants in Generation in Germany (SEK 1,100 million), the distribution activities of the Germany subsidiary Wemag (SEK 473 million), and the Mlylykoski combined heat and power plant in Finland (SEK 195 million).

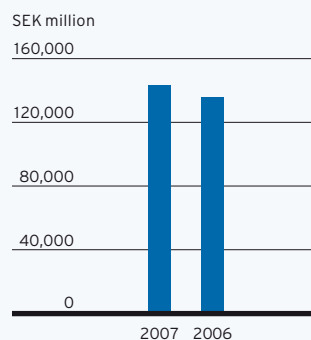
A breakdown of operating profit by Vattenfall's markets (primary and secondary segments) is provided in Note 7 to the consolidated accounts.

Net financial items amounted to SEK –4,650 million (–2,296), a deterioration of 102.5%. This includes discounting effects of SEK –2,453 million (–2,012) attributable to provisions. The deterioration in net financial items is mainly due to a lower return from the Swedish Nuclear Waste Fund and changes in the market value of derivatives. The balance of net interest income and expense, including the interest component of pension costs, was virtually unchanged compared with 2006. Net interest expense averaged SEK –166 million per month (–165).

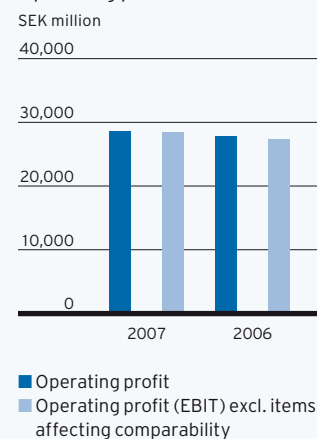
Following is a breakdown of interest income from financial investments and interest expense for loans as well as interest received/paid out:

	2007	2006	% change
Interest income from financial investments	1,331	1,341	–0.8
Interest expenses for loans	–3,325	–3,317	–0.2
Interest received	1,420	1,054	34.7
Interest paid	–2,902	–2,927	0.9

Net sales



Operating profit



In 2007 the interest component of pension costs was reclassified from an operating expense to a financial expense. This resulted in an increase in operating profit by SEK 811 million (772), with a corresponding increase in financial expenses. The comparison figures for 2006 have been recalculated according to this new principle. For more information, see under the heading Changed accounting principles on page 83.

Taxes decreased by SEK 2,420 million to SEK 3,247 million (5,667). The effective tax rate according to the income statement was 13.6% (22.2%). The low tax rate is explained by the decision in Germany to lower the company income tax rate by 10 percentage points starting in January 2008. As a result of this, the item Deferred tax liability decreased by SEK 3,900 million. Profit for the year (after tax) rose 4.2% to SEK 20,686 million (19,858) as a result of the sharp rise in equity. The return on net assets decreased to 16.6% (17.1%).

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 7 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. 2007	31 Dec. 2006
Assets	7		
Non-current assets			
Intangible assets: non-current	20	4,346	4,260
Property, plant and equipment	21	214,208	201,328
Investment property	22	906	936
Participations in associated companies	24	13,369	12,126
Other shares and participations	25	694	1,254
Share in the Swedish Nuclear Waste Fund	26	24,143	23,321
Current tax assets, non-current	17	1,229	1,241
Other non-current receivables	27	5,128	5,620
Deferred tax assets	17	841	1,807
Total non-current assets		264,864	251,893
Current assets			
Inventories	28	9,537	9,384
Intangible assets: current	29	750	746
Trade receivables and other receivables	30	28,120	26,444
Advance payment to suppliers		672	685
Derivatives with positive fair values		5,442	5,370
Prepaid expenses and accrued income	31	4,834	4,338
Current tax assets	17	1,358	2,138
Short-term investments	32	12,096	7,534
Cash and cash equivalents	33	10,563	14,634
Total current assets		73,372	71,273
Total assets		338,236	323,166
Equity and liabilities			
Equity attributable to holders of the Parent Company			
Share capital		6,585	6,585
Translation reserve		4,892	1,467
Reserve for cash flow hedges		-6,385	-5,811
Retained earnings incl. profit for the year		106,617	94,348
Total equity attributable to holders of the Parent Company		111,709	96,589
Equity attributable to minority holders		12,423	11,085
Total equity		124,132	107,674
Non-current liabilities	7		
Capital Securities	34, 36	9,341	8,911
Other interest-bearing liabilities	35, 36	42,643	46,868
Pension provisions	37	17,735	16,877
Other provisions	38	51,614	45,364
Deferred tax liabilities	17	23,704	29,875
Other noninterest-bearing liabilities	39	3,285	2,320
Total non-current liabilities		148,322	150,215
Current liabilities	7		
Trade payables and other liabilities	40	15,408	14,628
Advance payments from customers		395	225
Derivatives with negative fair values		14,242	12,823
Accrued expenses and deferred income	41	12,968	14,367
Current tax liabilities	17	2,928	3,585
Interest-bearing liabilities	35	15,205	15,796
Provisions	38	4,636	3,853
Total current liabilities		65,782	65,277
Total equity and liabilities		338,236	323,166

See also information on the Group's pledged assets (Note 43), contingent liabilities (Note 44) and commitments under consortium agreements (Note 45).

Comments

Assets

Total non-current assets increased by 5.1%, or SEK 12,971 million, to SEK 264,864 million (251,893). Property, plant and equipment increased by SEK 12,880 million as a result of higher investments than recognised depreciation and higher exchange rates upon translation to SEK. Deferred tax assets decreased by SEK 966 million, to SEK 841 million, mainly due to deferred tax pertaining to cash flow hedges. Current assets increased by 2.9% to SEK 73,372 million (71,273).

Short-term investments and cash and cash equivalents increased by 2.2% to a combined total of SEK 22,659 million (22,168), corresponding to 15.8% (16.3%) of net sales. Of this total, EUR 340 million (corresponding to SEK 3,224 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 22,659 million, as per 31 December Vattenfall had SEK 9,574 million (9,421) in committed credit facilities and SEK 11,413 million (10,059) in uncommitted credit facilities at its disposal.

In all, total assets increased by 4.7% to SEK 338,236 million (323,166).

Equity and liabilities

The Group's risk capital, i.e., equity attributable to shareholders of the Parent Company and to minority interests, increased by 15.3% to SEK 124,132 million (107,674). Equity attributable to shareholders of the Parent Company increased by 15.7%, while equity attributable to minority interests increased by 12.1%. The equity/total assets ratio increased to 36.7% (33.3%). The reserve for cash flow hedges was changed by SEK 4,577 million to SEK -5,811 million. The reserve for cash flow hedges changed by SEK -574 million to SEK -6,385 million (-5,811). This item is explained further in the comments on the consolidated statement of changes in equity on page 81.

Total non-current liabilities decreased by 6.1 to SEK 67,189 million (71,575). This includes SEK 9,341 million 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 11,083 million (10,951) in loans from Vattenfall's minority-owned Germany nuclear power companies, and SEK 5,791 million (4,956) in loans from minority owners in Vattenfall's Swedish nuclear power plants, among others. The Group's net debt decreased by 11.5% to SEK 43,740 million (49,407). The net debt/equity ratio was 35.2% on 31 December 2007, compared with 45.9% on 31 December 2006. For further details on the breakdown of loans according to their various types, see Notes 35 and 36 to the consolidated accounts.

Supplementary information

Net assets

Amounts in SEK million	31 Dec. 2007	31 Dec. 2006
Nordic countries	91,122	81,687
Germany	67,849	61,818
Poland	10,865	8,812
Other ¹	-5,750	-4,405
Eliminations	2,034	2,053
Total net assets	166,120	149,965
Net assets, weighted average value	157,252	151,155

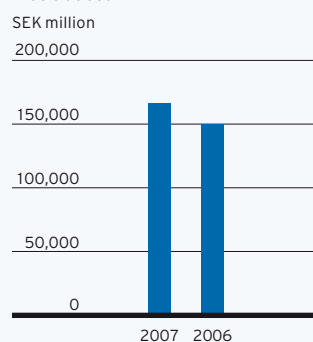
1) Includes Energy Trading activities, Treasury operations and Other Group functions.

Net debt

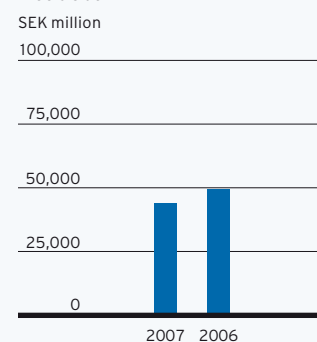
Amounts in SEK million	31 Dec. 2007	31 Dec. 2006
Capital Securities	-9,341	-8,911
Other interest-bearing liabilities ¹	-57,848	-62,664
Cash and cash equivalents	10,563	14,634
Short-term investments	12,096	7,534
Loans to minority owners in foreign subsidiaries	790	-
Total net debt	-43,740	-49,407

1) Of which, loans from minority-owned German nuclear power companies

Net assets



Net debt



Adjusted gross debt and net debt

When rating agencies and analysts assess a company's credit ratings, as a rule they make a number of adjustments of various balance sheet items in order to come up with an adjusted figure for gross debt and net debt. The items that are usually subject to adjustment are cash and cash equivalents, short-term investments, and various provisions (asset retirement obligations). The table below shows adjusted figures for gross and net debt calculated by Vattenfall, but according to the principles applied by analysts in the market. However, it should be emphasised that there is no uniform method for such adjustment, which is why analysts and rating agencies could very well arrive at another amount. The calculation presented by Vattenfall here can be considered to be conservative.

	31 Dec. 2007	31 Dec. 2006
Interest-bearing liabilities	-67,189	-71,575
Present value of pension obligations (including actuarial gains/losses)	-17,073	-19,670
Provisions for mining operations and other environment-related provisions	-11,975	-10,295
50% of Capital Securities	4,671	4,455
Adjusted gross debt	-91,566	-97,085
Cash and cash equivalents and short-term investments	22,659	22,168
Liability agreement for German nuclear power operations (Solidarvereinbarung)	-3,224	-3,076
Minority owner's share of cash and cash equivalents in Vattenfall's German nuclear power companies	-3,531	-3,594
Adjusted cash and cash equivalents and short-term investments	15,904	15,498
Adjusted net debt	-75,662	-81,587

CONSOLIDATED CASH FLOW STATEMENT

Amounts in SEK million, 1 January – 31 December	2007	2006
Operating activities		
Funds from operations (FFO) ¹	34,049	35,673
Cash flow from changes in operating assets and operating liabilities	-1,718	-466
Cash flow from operating activities	32,331	35,207
Investing activities		
Investments ²	-18,964	-16,534
Divestments ³	925	1,720
Net investments as a result of the deal between Vattenfall and DONG ⁴	-	-686
Cash and cash equivalents in acquired/divested companies	2	-147
Cash flow from investing activities	-18,037	-15,647
Cash flow before financing activities	14,294	19,560
Financing activities		
Changes in short-term investments	-4,155	161
Changes in loans to minority owners in foreign subsidiaries	-773	242
Loans raised ⁵	4,434	8,187
Amortisation of debt	-10,570	-13,495
Contribution from minority interests	9	55
Dividends paid to equity holders	-7,607	-5,892
Cash flow from financing activities	-18,662	-10,742
Cash flow for the year	-4,368	8,818
Cash and cash equivalents		
Cash and cash equivalents at the beginning of the year	14,634	6,049
Cash flow for the year	-4,368	8,818
Exchange rate differences	297	-233
Cash and cash equivalents at the end of the year	10,563	14,634
Supplementary information		
Cash flow before financing activities	14,294	19,560
Financing activities		
Dividends paid to equity holders	-7,607	-5,892
Contribution from minority interests	9	55
Cash flow after dividend	6,696	13,723
Analysis of change in net debt		
Net debt at beginning of the year	-49,407	-64,343
Cash flow after dividend	6,696	13,723
Changes as a result of valuation at fair value	783	1,458
Increase of interest-bearing liabilities for leasing	-194	-
Interest-bearing liabilities acquired as a result of the deal between Vattenfall and DONG	-	-2,893
Exchange rate differences on net debt	-1,618	2,648
Net debt at the end of the year	-43,740	-49,407
Free cash flow	19,650	23,178

1) Funds from operations (FFO)

Amounts in SEK million	2007	2006
Profit for the year	20,686	19,858
Depreciation and amortisation	15,432	14,574
Impairment losses	1,850	1,568
Reversed impairment losses	-44	-25
Undistributed results from participation in associated companies	-125	-666
Unrealised items related to derivatives	-1,253	4,404
Unrealised foreign exchange gains	-86	-1,808
Unrealised foreign exchange losses	1,254	199
Capital gains	-541	-752
Capital losses	444	352
Impairment losses, shares	14	4
Change in interest receivables	-226	-481
Change in interest liabilities	607	478
Change in tax liabilities	-4,885	-333
Change in the Swedish Nuclear Waste Fund	-822	-1,918
Change in provisions	1,744	219
Total	34,049	35,673

Interest paid totalled SEK 2,902 million (2,927) and interest received totalled SEK 1,420 million (1,054). Tax paid totalled SEK 8,132 million (6,000). Dividends received totalled SEK 952 million (706).

Unrealised items related to derivatives amounted to SEK -1,253 million (4,404). The change is mainly attributable to a change in wholesale prices regarding derivative transactions, where hedge accounting was not used. Rising wholesale electricity prices in late 2007 entailed a greater need for margin security. Vattenfall Treasury accounted for SEK -396 million (1,421); this change is attributable to an improvement in exchange rate differences on interest currency swaps. These exchange rate differences were offset by a corresponding worsening of exchange rate differences on underlying loans in foreign currency.

The change in tax liabilities, totalling SEK -4,885 million (-333), is due to a one-time effect resulting from the reduced income tax rate in Germany. As a result of this, in 2007 there was wide disparity between paid tax and the tax expense reported in the income statement.

The increase in the item Change in provisions is due to higher provisions in 2007, in the amount of approximately SEK 1,100 million, for environmental matters, personnel (excluding pensions) and other provisions. In addition, the dissolution of provisions for mining operations, tax processes and other provisions was approximately SEK 500 million lower than in 2006.

2) Investments

Amounts in SEK million	2007	2006
Acquisitions of Group companies	-112	-126
Investments in associated companies and other shares and participations	-1	-17
Investments in intangible assets: non-current	-279	-586
Investments in property, plant and equipment	-18,571	-15,801
Investments in investment property	-1	-4
Total	-18,964	-16,534

3) Divestments

Amounts in SEK million	2007	2006
Divestments of shares and participations	442	834
Divestments of intangible assets: non-current	2	2
Divestments of property, plant and equipment	481	884
Total	925	1,720

4) Net investments as a result of the deal between Vattenfall and DONG entailed that Vattenfall acquired net assets and shares valued at SEK 13,307 million, which were reported net above against the value of sold assets (primarily shares in Elsam A/S and the participation in I/S Avedøre 2), which were transferred to DONG at a value of SEK 12,621 million.

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

Comments

Cash flow from operating activities increased by 8.2% to SEK 32,331 million (35,207). Funds from operations (FFO) decreased by 4.6%, to SEK 34,049 million (35,673), while the change in working capital was SEK -1,718 million (-466). The negative change in working capital is mainly attributable to a change in margin calls on the European Energy Exchange in Germany. Free cash flow, i.e., cash flow from operating activities less maintenance investments, decreased by 15.2% to SEK 19,650 million (23,178). Cash flow before financing activities decreased by SEK 14,294 million (19,560), due to a higher investment and the change in the above-mentioned margin calls on EEX.

Investing activities

Total investments increased by 10.1% to SEK 18,964 million (17,220). Maintenance investments were broken down as follows in 2007: Nordic countries SEK 7,138 million, Germany SEK 4,716 million, Poland SEK 791 million, and Other SEK 36 million. Growth investments were broken down as follows: Nordic countries SEK 3,670 million, Germany SEK 2,526 million, Poland SEK 85 million, and Other SEK 2 million. Investments in equities in 2007 consisted primarily of investments in offshore wind farms.

Investment programme 2008–2012

During the five-year period 2008–2012 Vattenfall plans to invest SEK 173 billion, of which SEK 55 billion in the Nordic countries, SEK 107 billion in Germany, and SEK 11 billion in Poland. Of total investments, SEK 133 million is earmarked for generation, while SEK 40 billion will be in the network operations. The main reasons for the expanded investment programme compared with the previous five-year plan (SEK 134 billion) are higher investment costs in all markets, CO₂-related investments including demonstration plants, and higher costs for connecting wind power plant and other electricity network investments.

Sales of assets amounted to SEK 925 million (1,720), including SEK 442 million (834) in equities. Sales in 2007 consisted mainly of various heating plants in Sweden and Estonia, and the sale of the Germany subsidiary Vattenfall Europe Contracting GmbH.

Financing activities

Total interest-bearing liabilities, including Capital Securities, decreased by 6.1% to SEK 67,189 million (71,575). 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 34 to the consolidated accounts on page 99. In 2007 loans were amortised in the amount of SEK 10,570 million, while new borrowing amounted to SEK 4,434 million (of which Vattenfall Treasury accounted for SEK 669 million in long-term loans and SEK 500 million in the form of an overnight loan). In addition, Vattenfall's majority-owned nuclear power companies Forsmark and Ringhals increased their part-owner loans, whereby SEK 800 million was borrowed from other part owners than Vattenfall, which are consequently reported as external borrowings. (The total amount of loans raised and amortisation of debt include Vattenfall's loans from minority-owned Germany nuclear power companies.) New borrowing consisted primarily of three private placements under Vattenfall's EMTN programme, at very favourable terms. The terms of these are 15 and 30 years, respectively.

The Group's net debt decreased by 11.5% to SEK 43,740 million (49,407). As per 31 December 2007, the average fixed-interest period was 3.3 years (3.3), and the average remaining maturity for net debt was 6.7 years (6.6). Excluding Capital Securities, the average fixed-interest period was 2.6 years and the average maturity was 6.5 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 brought forward 2006	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
Cash flow hedges:							
Changes in fair value	-	-	-1,556	-	-1,556	-9	-1,565
Dissolved against income statement	-	-	1,299	-	1,299	114	1,413
Transferred to cost of hedged item	-	-	92	-	92	2	94
Tax attributable to items reported directly against equity	-	-	-409	-	-409	-48	-457
Hedging of net investments in foreign operations	-	-2,048	-	-	-2,048	-	-2,048
Translation differences	-	5,473	-	-	5,473	383	5,856
Income, net, recognised directly in equity	-	3,425	-574	-	2,851	442	3,293
Profit for the year	-	-	-	19,769	19,769	917	20,686
Total recognised income and expense for the year	-	3,425	-574	19,769	22,620	1,359	23,979
Dividends paid to equity holders	-	-	-	-7,500	-7,500	-107	-7,607
Group contributions from minority, net after tax	-	-	-	-	-	87	87
Changes in ownership	-	-	-	-	-	-1	-1
Balance carried forward 2007	6,585	4,892	-6,385	106,617	111,709	12,423	124,132

Share capital:

As of 31 December 2007 the registered share capital comprised 131,700,000 shares with a quota 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.

The reserve for cash flow hedges is expected to affect the income statement and cash flow, respectively, in the periods indicated below:

	2007		2006	
	Cash flow	Income statement	Cash flow	Income statement
Within 1 year	-4,998	-5,661	-5,234	-6,180
Between 1–5 years	-2,852	-3,129	-2,444	-2,467
Later than 5 years	–	–	–	12
	-7,850	-8,790	-7,678	-8,635
No expected effect	-74	-56	-169	-165
Total	-7,924	-8,846	-7,847	-8,800

Amounts that were removed from the reserve for cash flow hedges are included in the following line items in the income statement:

	2007	2006
Net sales	-1,458	-8,710
Cost of products sold	68	17
Other operating income	1	–
Financial expenses	-24	-133
Total	-1,413	-8,826

Amounts that were removed from the reserve for cash flow hedges are included in the following line items in the balance sheet:

	2007	2006
Property, plant and equipment	-1	-9
Inventories	95	-51
Total	94	-60

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.

NOTES TO THE CONSOLIDATED ACCOUNTS

(Amounts in SEK million unless stated otherwise.)

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Note 1 Company information

The consolidated accounts and year-end report for Vattenfall AB for 2007 were approved for publication in accordance with a decision by the Board of Directors on 7 February 2008. The Annual Report was approved in accordance with a decision by the Board of Directors on 13 March 2008. 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 7 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).

In addition, recommendation RFR 1.1 – Supplementary Accounting Principles for Groups of Companies, issued by the Swedish Financial Reporting Board, has been applied. RFR 1.1, which will become mandatory for the Group's 2008 financial statements but has been applied prospectively, 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 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 51 to the consolidated accounts.

Changes in accounting principles

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 2007, reporting in the income statement of cash flow hedges on sales and purchases of electricity and other commodities has been changed. Previously, the effect of cash flow hedges was reported in the income statement under the item Net sales in the event of a positive outcome and under the item Cost of products sold in the event of a negative outcome. Starting in 2007, the effect of cash flow hedges is reported in the same way as the hedged item is reported. Comparison figures for 2006 have been restated in accordance with the new principle. See Note 3 to the consolidated accounts, Effects of changes in accounting principles.

Starting in 2007, reporting in the income statement of the interest component related to annual pension costs, net after deductions for expected returns on plan assets, has been restated to Financial expenses. Previously, these costs were included in Operating profit. A uniform classification of all interest items related to provisions is thereby achieved. Comparison figures for 2006 have been restated in accordance with the new principle. See Note 3 to the consolidated accounts, Effects of changes in accounting principles.

A number of new IFRSs, amendments to standards and interpretations approved by the EU are effective as of the 2007 financial year and have 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 became mandatory for the Group's 2007 financial statements, have entailed increased additional disclosures with respect to the Group's financial instruments.

The following interpretations have had no or minimal impact on Vattenfall's financial statements:

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 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 became mandatory for the Group's 2007 financial statements, with retrospective application required.

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 10 – Interim Financial Reporting and Impairment, prohibits the reversal of an impairment loss recognised in a previous interim period in respect of goodwill, of an investment in an equity instrument, or of a financial asset carried at cost. IFRIC 10 became mandatory for the Group's 2007 financial statements and applies 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).

IFRIC 11 refers to an interpretation of IFRS 2 – Group and Treasury Share Transactions. The interpretation clarifies in what way a transaction of own equity instruments shall be classified in an entity which receives goods or services from employees. The interpretation became mandatory from 1 March 2007.

New IFRSs and interpretations not yet adopted

The EU has endorsed a new standard, IFRS 8 – Operating Segments, which becomes mandatory for the Group's 2009 financial statements. Earlier

application is permitted. IFRS 8 defines an operating segment and what information shall be disclosed for each segment in financial statements. IFRS 8 may entail amendments in the segment reporting of Vattenfall.

A number of new standards, amendments to standards and interpretations not yet approved by the EU may at the earliest become effective for the Group's 2008 financial statements.

IFRIC 12 – Service Concession Arrangements. The interpretation provides, among other things, general principles on recognising and measuring the obligations and related rights in service concession arrangements. This interpretation is to be applied for financial years beginning on or after 1 January 2008. Earlier application is permitted. Any effects on Vattenfall's financial reports are currently being investigated.

The following interpretations are expected to have no or minimal impact on Vattenfall's financial statements:

Amendments in IAS 23 – Borrowing Costs require that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset that takes a substantial period of time to get ready for its intended use or sale. The amendment becomes mandatory for the Group's 2009 financial statements. Earlier application is permitted.

IFRIC 13 – Customer Loyalty Programmes. This interpretation addresses the reporting and valuation of a company's obligation to provide free or discounted goods or services to customers that have qualified for such through previous purchases. The interpretation is to be applied for financial years beginning on or after 1 July 2008. Earlier application is permitted.

IFRIC 14 pertains to an interpretation of IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction, and addresses how minimum funding requirements affect the limit in IAS 19 for a defined benefit asset. The interpretation is to be applied for financial years beginning on or after 1 January 2008. Earlier application is permitted.

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 7 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 for differences between the carrying amount and the corresponding tax base on all

Note 2 continued

items except for goodwill. 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. 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. 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 the consolidated income statement, the item Participations in the results of associated companies is shown net after tax.

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. Operationally derived exchange gains and losses are shown under Other operating income and Other operating expenses, respectively.

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 5 to the consolidated accounts.

Revenue recognition

Net sales include sales proceeds from core businesses, i.e., sales, distribution and transmission of electricity and sales and distribution of heat.

Sales of electricity and heat

Sales of electricity and heat and related distribution and transmission are recognised as revenue at the time of delivery, excluding value-added tax and excise taxes.

Starting on 1 April 2006, Vattenfall has replaced intra-Group physical electricity transactions between Nordic electricity generation and sales activities in the Nordic countries with transactions vis-à-vis Nord Pool. The purchases that the sales activities make from Nord Pool are offset against sales from generation to Nord Pool in the reporting of the Nordic segment at the Group level.

The change in fair value of commodity derivatives that does not qualify for hedge accounting is reported in net sales.

Other revenues

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.

Connection fees for electricity distribution/transmission and heat distribution are reported as revenues to the extent that they do not cover future obligations.

Government grants

Grants are reported at fair value when it can reasonably be assumed 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 Other operating income.

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 financial 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 is adjusted for 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 payment is established.

Financial expenses

Financial expenses consist of interest expenses on loans, discounting effects and interest attributable to provisions, 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 which take a substantial period of time to complete, are not reported as a financial expense 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 financial 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 active 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. Discounting is done using discounting factors based on return curves in the cash flows of the respective currencies. The return curves are based on the market interest rates, such as swap rates, that apply on the balance sheet date.

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 for spot purchases and spot sales of financial assets.

Financial assets at fair value through profit or loss

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. Assets are restated on an ongoing basis at fair value, with changes in value reported in the income statement.

This category also includes cash equivalents, i.e., short-term investments with an original term of less than three months. The category also includes short-term investments with original terms exceeding three months.

Loans and receivables

Loans and 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, i.e., less bad debts. 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.

This category also includes Cash and bank balances, i.e., immediately available balances with banks and similar institutions.

Available-for-sale financial assets

Shares and participations for which there are no balance sheet date quotations and for which a fair value cannot be established are valued at cost, after taking accumulated impairment losses into account.

Financial liabilities

Financial liabilities have been classified into various categories depend-

ing on the purpose of the acquisition of the financial liability. The classification is determined at the date of original acquisition.

Financial liabilities at fair value through profit or loss

Derivative instruments are also classified in this category. 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 as a separate line item in the balance sheet under current assets, while derivative instruments with a negative market value are reported as a separate line item current 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.

Embedded derivatives

In customer contracts that stretch over long periods of time, the price can be linked to the price trend for other commodities than electricity, and indirectly also to currency movements, since current commodity prices are quoted in foreign currency. Such contracts are considered to contain embedded derivatives. Vattenfall has signed such contracts with a number of major customers. Some of these contracts stretch over long periods of time – the longest contract has a term extending through 2019. 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 pertains to the period extending beyond April 2010.

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.

Note 2 continued

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/balance sheet for the later period when the hedged item affects the income statement/balance sheet. 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 in foreign operations

For derivative instruments and loans in foreign currencies that constitute hedges in hedging of net investments in foreign operations, 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 20 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, which take a substantial period of time to complete, 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 dismantling 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.

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. Estimated useful lives are further described in Note 21 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: current

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. Sales and purchases of emission allowances are accomplished at applicable exchanges.

Purchased emission allowances are reported as intangible assets under current assets at cost less accumulated impairment losses, while emission allowances that have been received free of charge from the respective countries' authorities are stated at a value of SEK nil. 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.

Certificates

With the aim to increase renewable energy sources for electricity generation, Sweden and Poland have so-called certificate systems. Plants included in a system receive, earned free of charge, certificates from the authorities in Sweden and Poland, respectively, in pace with their generation of electricity qualifying for certificates.

Accumulated certificates, earned free of charge, are reported as an intangible asset under current assets at fair value when obtained, whereas purchased certificates are reported at cost less accumulated impairment losses.

When electricity is sold, an obligation arises to deliver certificates to the authorities in the respective countries. This obligation is reported as an expense and as a liability. The liability is valued at the amount at which it is expected to be settled.

Impairment losses

Assessments are made throughout the year for any indication that an as-

set may have decreased 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 constructive 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 that they arise over the expected average remaining service period for the employees covered by the plan.

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

Note 2 continued

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 constructive 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.

Provisions are also reported for onerous contracts, i.e., where unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract.

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 Effects of changes in accounting principles

As described in Note 2 to the consolidated accounts certain changes in accounting principles have been implemented as of 2007. These effects are quantified below, which has also entailed the restatement of most key ratios (see page 123) as of 2004.

Reporting in the consolidated income statement of cash flow hedges on sales and purchases of electricity and other commodities has been changed. Previously, the effect of cash flow hedges was reported in the income statement under the item Net sales in the event of a positive outcome and under the item Cost of products sold in the event of a negative outcome. Now, the effect of cash flow hedges is reported in the same way as the hedged item is reported. Effects in previous periods of the above-mentioned change in accounting principle entails that Net sales and Cost of products sold for the Vattenfall Group have decreased by SEK 10,013 million for the full year 2006, by SEK 5,364 million for the full year 2005 and by SEK 2,350 million for the full year 2004. Gross profit and Operating profit are not affected by the transition to the new accounting principle.

In the consolidated income statement, the interest component related to annual pension cost, net after deductions for the expected return on plan assets, has been reclassified as a Financial expense; previously these were reported in Operating income. The effect of this change in accounting principle entails for the full year 2007 an increase in Operating profit by SEK 811 million along with an increase in Financial expenses by the same amount. The corresponding effect was SEK 772 million for the full year 2006, SEK 792 million for the full year 2005 and SEK 830 million for the full year 2004.

Note 4 Acquired and divested operations

Companies that have been subject to investment or divestment during 2007 (major items only). None of the investments or divestments have had a significant effect on Vattenfall's net sales, profit or balance sheet.

	Month	Company	Change, %	New ownership, %	Transfer amount, SEK million
Investments					
Nordic countries	September	Västerbergslagens Elförsäljning AB, Sweden	49	100	7
Germany	June	Dan Tysk Kabel GmbH	97	97	98
	August	Vattenfall Europe Baltic Offshore Grid GmbH	97	97	10
Divestments					
Germany	September	Vattenfall Europe Contracting GmbH	-97	-	89
Other	February	Vattenfall Estonia OÜ, Estonia	-100	-	54
	February	Vattenfall Latvia SIA, Latvia	-100	-	8
	December	Ätvidabergs Fjärrvärme AB, Sweden	-50	-	28

Note 5 Exchange rates

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

Currency	Average rate		Balance sheet date rate		
	2007	2006	31 Dec. 2007	31 Dec. 2006	
Europe	EUR	9.2464	9.2617	9.4700	9.0500
Denmark	DKK	1.2409	1.2418	1.2705	1.2135
Norway	NOK	1.1530	1.1516	1.1875	1.0945
Poland	PLN	2.4477	2.3769	2.6300	2.3600
USA	USD	6.7439	7.3794	6.4700	6.8700

Note 6 Net sales

	2007	2006
Sales including excise taxes		
sale of goods (electricity, heat, gas etc.)	141,109	135,300
rendering of services	5,594	5,130
Excise taxes	-3,064	-4,628
Net sales	143,639	135,802

Note 7 Segmental information

The Group's activities are conducted primarily in three geographic areas. These primary segments are the Nordic countries, Germany and Poland. There is also a segment named Other (including Energy Trading, Financial Activities and Other Group functions). The Nordic countries segment mainly covers operations in the Nordic countries, but also includes activities in the Netherlands and the UK. The primary segments consist of areas based on the location of assets.

Operating profit for 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 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, 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

2007	Nordic countries	Germany	Poland	Other	Eliminations	Total
External net sales	44,429	77,471	9,265	12,474	–	143,639
Sales between segments	2,284	34,989	531	28,965	–66,769	–
Total	46,713	112,460	9,796	41,439	–66,769	143,639
Operating profit (EBIT)	12,591	15,338	1,092	–438	–	28,583
Operating profit (EBIT) excl. items affecting comparability	12,418	15,440	1,077	–438	–	28,497
Assets	163,548	177,668	21,718	113,842	–138,540	338,236
Liabilities	137,187	95,544	3,239	116,669	–138,535	214,104
Net assets	91,122	67,849	10,865	–5,750	2,034	166,120
Investments	10,806	7,242	876	8,557	–8,517	18,964
Depreciation and amortisation	5,375	9,319	686	52	–	15,432
Impairment losses	225	1,618	7	–	–	1,850
Reversed impairment losses	–	42	2	–	–	44
Participations in the results of associated companies	116	882	–	–	–	998
2006	Nordic countries	Germany	Poland	Other	Eliminations	Total
External net sales	48,235	69,905	8,981	8,681	–	135,802
Sales between segments	–8,117	31,633	468	20,504	–44,488	–
Total	40,118	101,538	9,449	29,185	–44,488	135,802
Operating profit (EBIT)	13,287	13,884	1,072	–466	44	27,821
Operating profit (EBIT) excl. items affecting comparability	13,217	13,711	942	–466	44	27,448
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

Secondary segments

2007	Electricity Generation	Electricity Markets	Networks	Heat	Other	Eliminations	Total
External net sales	32,162	68,018	41,654	13,717	2,974	–14,886	143,639
Sales between segments	33,950	4,243	13,420	6,543	6,099	–64,255	–
Total	66,112	72,261	55,074	20,260	9,073	–79,141	143,639
Operating profit (EBIT)	22,064	314	3,035	4,179	–1,009	–	28,583
Operating profit (EBIT) excl. items affecting comparability	22,094	314	3,071	4,118	–1,100	–	28,497
Assets	212,909	31,578	89,159	46,510	133,242	–175,162	338,236
Investments	9,986	87	5,705	2,535	1,337	–686	18,964
2006	Electricity Generation	Electricity Markets	Networks	Heat	Other	Eliminations	Total
External net sales	34,169	63,979	36,571	14,833	1,598	–15,348	135,802
Sales between segments	28,707	5,324	15,003	6,709	5,701	–61,444	–
Total	62,876	69,303	51,574	21,542	7,299	–76,792	135,802
Operating profit (EBIT)	19,762	355	3,947	4,130	–373	–	27,821
Operating profit (EBIT) excl. items affecting comparability	19,776	169	3,985	4,250	–732	–	27,448
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

Note 8 Cost of products sold

Direct costs include production taxes and duties of SEK 5,362 million (5,341) and property taxes of SEK 1,359 million (1,152).

Note 9 Other operating income

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

Note 10 Other operating expenses

Other operating expenses primarily comprise capital losses from the sale of non-current assets and emission allowances, 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:

	2007	2006
Cost of products sold	14,679	13,843
Selling expenses	307	303
Administrative expenses	426	405
Research and development costs	5	4
Other operating expenses (investment property)	15	19
Total	15,432	14,574

Amortisation of non-current intangible assets is included in Cost of products sold above in the amount of SEK 415 million (415), Selling expenses in the amount of SEK 116 million (137) and Administrative expenses in the amount of SEK 111 million (194).

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:

	2007	2006
Cost of products sold	1,850	1,191
Selling expenses	–	193
Administrative expenses	–	2
Other operating expenses (investment property)	–	182
Total	1,850	1,568

Major impairment losses above include:

Nordic countries

Vattenfall owns and manages a combined heat and power plant in Finland which delivers process steam to an individual customer. Higher fuel and operating costs which have not been possible to compensate under the customer contract have resulted in impairment of SEK 195 million, which has been charged against the Nordic Heat business unit. A discount rate of 8% after tax has been used for these calculations.

Germany

Future cost increases stemming from new network fees decided on by Bundesnetzagentur, the German network regulator, have resulted in impairment charges for pumped storage power plants in Germany. The reported value of the plants has been compared with a calculated value in use based on future, sustainable cash flows. This has resulted in an impairment loss of SEK 1,100 million for the Mining & Generation business unit. A discount rate of 7.3% after tax has been used in the calculations.

In addition, following the same network regulator's decision on future assessments regarding reduced tariffs, additional impairment charges of SEK 473 million were incurred for the network operations in eastern Germany. A discount rate of 4.75% after tax has been used for these calculations.

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

	2007	2006
Cost of products sold	14	23
Administrative expenses	1	2
Other operating expenses (investment property)	29	–
Total	44	25

Note 13 Operating costs according to type

	2007	2006
Personnel costs	18,820	19,249
Depreciation and amortisation	15,432	14,574
Impairment losses of non-current assets	1,850	1,568
Reversed impairment losses of non-current assets	–44	–25
Other operating costs incl. input commodities	81,778	76,268
Total	117,836	111,634

Note 14 Financial income

	2007	2006
Dividends	79	73
Interest income attributable to investments, etc.	1,331	1,341
Return from the Swedish Nuclear Waste Fund	843	2,106
Net change in value from reassessment of derivatives	–	272
Net change in value from reassessment of other financial assets	–	35
Capital gains from divestments of shares and participations	23	12
Total	2,276	3,839

Note 15 Financial expenses

	2007	2006
Interest expenses attributable to loans, etc.	3,325	3,317
Interest components related to pension costs, net after deductions for expected returns on plan assets	811	772
Discounting effects attributable to provisions	2,453	2,012
Exchange rate differences, net	19	25
Net change in value from reassessment of derivatives	243	–
Net change in value from reassessment of other financial assets	54	–
Impairment losses on shares and participations	14	7
Capital losses from divestments of shares and participations	7	2
Total	6,926	6,135

Note 16 Ineffectiveness from hedges recognised in profit or loss

	2007	2006
Ineffectiveness from fair value hedges ¹	-15	58
Ineffectiveness from cash flow hedges	24	133
Total	9	191

1) Ineffectiveness from fair value hedges is distributed as follows:

	2007	2006
Gains(+)/losses(-) from hedging instruments	777	-1,461
Gains(+)/losses(-) from hedged items	-792	1,519
Total	-15	58

Note 17 Income tax expense

Profit before tax amounted to:		
	2007	2006
Sweden	7,784	10,524
Other countries	16,149	15,001
Total	23,933	25,525

The calculation of deferred tax takes into account the German authorities' decision in July 2007 on reduced corporate income tax by approximately 10 percentage points starting in 2008. This explains the relatively low effective tax rate that was reported for 2007.

The reported income tax expense breaks down as follows:		
	2007	2006
Current tax		
Current taxes related to the period:		
Sweden	2,122	1,668
Other countries	6,676	5,578
Adjustment of current taxes for prior periods:		
Sweden	-17	-103
Other countries	724	-1,127
	9,505	6,016
Deferred tax		
Sweden	17	1,251
Other countries	-6,275	-1,600
	-6,258	-349
Total income tax expense	3,247	5,667

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

%	2007	2006
Swedish income tax rate	28.0	28.0
Difference in tax rate in foreign operations	5.7	4.8
Tax adjustment for previous periods, new tax law	-	-5.0
Tax adjustment for previous periods, other	3.0	0.3
Amended tax rates	-16.6	-
Adjustment because of change in tax base	-2.2	-
Non-deductible expenses and non-taxable income, net	-3.5	-5.4
Other	-0.8	-0.5
Effective tax rate¹	13.6	22.2
Tax rate, current tax ²	39.7	23.6

1) Income tax expense according to the consolidated income statement in relation to profit before tax.

2) Income tax expense according to the consolidated income statement excluding deferred tax in relation to profit before tax.

Accumulated tax-loss carryforwards are broken down as follows:

	2007	2006
Sweden	5	13
Other countries	419	627
Total	424	640

The decrease in the reported amount is explained by the tax-loss carryforwards utilised in 2007.

The tax-loss carryforwards fall due as follows:

	2007
2008	154
2009	37
No time limit	233
Total	424

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. The non-current part is represented in the balance sheet by a discounted value.

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

Deferred tax assets		
	2007	2006
Non-current assets	968	3,208
Current assets	842	1,096
Non-current liabilities	3,949	6,296
Current liabilities	2,197	1,609
Tax-loss carryforwards	75	66
Offsetting of deferred tax liabilities	-7,190	-10,468
Total	841	1,807
Deferred tax liabilities		
	2007	2006
Non-current assets	27,367	32,436
Current assets	782	2,235
Non-current liabilities	2,735	4,309
Current liabilities	10	1,363
Offsetting of deferred tax assets	-7,190	-10,468
Total	23,704	29,875

Deferred tax assets (changes in 2007)

Balance brought forward	1,807
Acquired companies	-36
Additions/dissolutions for the period, net	-156
Translation differences	63
Offsetting of deferred tax liabilities	-837
Balance carried forward	841

Deferred tax liabilities (changes in 2007)

Balance brought forward	29,875
Acquired companies	1
Additions/dissolutions for the period, net	-6,003
Divested companies	-3
Translation differences	671
Offsetting of deferred tax assets	-837
Balance carried forward	23,704

Note 18 Minority interests

	2007	2006
Minority interests in profit before tax	1,018	1,503
Minority interests in income tax expense	-101	-374
Total	917	1,129

Note 19 Financial instruments – Items of income, expense, gains or losses

	2007	2006
Gains(+)/losses(-) from:		
Financial assets and financial liabilities at fair value through profit or loss for financial assets and financial liabilities held for trading	2,003	-4,361
Available-for-sale financial assets	80	75
Loans and receivables	1,495	2,757
Financial liabilities valued at amortised cost	-3,437	-822
Total	141	-2,351

Interest income amounts to SEK 522 million (302), and interest expenses amounts to SEK 2,585 million (2,477) for financial assets and financial liabilities not carried at fair value through profit or loss.

Note 20 Intangible assets: non-current

	Development costs not yet capitalised		Capitalised development costs		Goodwill		Concessions and similar rights with finite useful lives		Renting rights, mining rights and similar rights with finite useful lives		Total	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
Cost												
Cost brought forward	-	-	1,381	1,307	435	451	2,889	3,250	4,624	4,428	9,329	9,436
Acquired companies	-	-	-	-	-	-	131	-	-	-	131	-
Investments	45	-	71	110	-	-	146	122	17	354	279	586
Divestments/Disposals	-	-	-	-	-179	-	-51	-205	-	-1	-230	-206
Reclassifications	-	-	-	-	-	-	35	-135	109	-	144	-135
Divested companies	-	-	-	-	-	-	-7	-71	-37	-	-44	-71
Translation differences	-	-	42	-36	33	-16	101	-72	188	-157	364	-281
Accumulated cost carried forward	45	-	1,494	1,381	289	435	3,244	2,889	4,901	4,624	9,973	9,329
Accumulated amortisation according to plan¹												
Amortisation brought forward	-	-	-795	-484	-	-	-2,010	-2,125	-1,352	-1,174	-4,157	-3,783
Amortisation for the year	-	-	-222	-277	-	-	-188	-245	-232	-224	-642	-746
Divestments/Disposals	-	-	-	-	-	-	43	199	-	1	43	200
Reclassifications	-	-	-	-59	-	-	3	67	-2	-	1	8
Divested companies	-	-	-	-	-	-	2	44	23	-	25	44
Translation differences	-	-	-35	25	-	-	-66	50	-61	45	-162	120
Accumulated amortisation carried forward	-	-	-1,052	-795	-	-	-2,216	-2,010	-1,624	-1,352	-4,892	-4,157
Impairment losses												
Impairment losses brought forward	-	-	-193	-	-176	-183	-19	-19	-524	-525	-912	-727
Impairment losses for the year	-	-	-	-193	-	-	-	-3	-	-	-	-196
Divestments/Disposals	-	-	-	-	179	-	-	-	-	-	179	-
Reclassifications	-	-	-	-	-	-	1	2	-	-	1	2
Translation differences	-	-	-	-	-3	7	-1	1	-1	1	-5	9
Accumulated impairment losses carried forward	-	-	-193	-193	-	-176	-19	-19	-525	-524	-737	-912
Residual value according to plan carried forward	45	-	249	393	289	259	1,009	860	2,752	2,748	4,344	4,260
Advance payment to suppliers											2	-
Total											4,346	4,260

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 2007, contractual commitments for the acquisition of non-current intangible assets amounted to SEK 7 million (7).

Note 21 Property, plant and equipment

	Land and buildings ¹		Plants and other technical installations		Equipment, tools, and fixtures and fittings		Construction in progress ²		Total	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
Cost										
Cost brought forward ³	69,343	68,306	361,368	353,960	9,047	9,019	11,367	7,366	451,125	438,651
Acquired companies	106	-	7	4,306	-	-	-	85	113	4,391
Investments ⁴	371	2,607	2,596	13,236	745	776	14,859	11,365	18,571	27,984
Capitalised/Reversed future expenses for decommissioning, restoration, etc.	254	723	2,821	366	-	-	-	-1	3,075	1,088
Transfer from construction in progress	870	649	7,677	6,578	95	105	-8,642	-7,332	-	-
Divestments/Disposals	-475	-1,151	-3,825	-5,608	-610	-498	-36	-121	-4,946	-7,378
Other reclassifications	149	35	-454	-7	88	-14	95	128	-122	142
Divested companies	-73	-99	-611	-788	-27	-59	-14	-1	-725	-947
Translation differences	2,238	-1,727	13,264	-10,675	344	-282	272	-122	16,118	-12,806
Accumulated cost carried forward	72,783	69,343	382,843	361,368	9,682	9,047	17,901	11,367	483,209	451,125
Accumulated depreciation according to plan⁵										
Depreciation brought forward	-31,228	-31,338	-208,069	-208,346	-7,288	-7,472	-	-	-246,585	-247,156
Acquired companies	-11	-	-2	-189	-	-	-	-	-13	-189
Depreciation for the year	-1,755	-1,686	-12,446	-11,548	-574	-575	-	-	-14,775	-13,809
Divestments/Disposals	232	875	3,559	5,290	586	473	-	-	4,377	6,638
Other reclassifications	8	50	266	-5	-19	6	-	-	255	51
Divested companies	24	76	169	534	14	46	-	-	207	656
Translation differences	-1,069	795	-7,733	6,195	-267	234	-	-	-9,069	7,224
Accumulated depreciation carried forward	-33,799	-31,228	-224,256	-208,069	-7,548	-7,288	-	-	-265,603	-246,585
Impairment losses										
Impairment losses brought forward	-986	-943	-3,013	-2,030	-60	-61	-8	-10	-4,067	-3,044
Impairment losses for the year	-49	-99	-1,795	-1,090	-5	-1	-1	-	-1,850	-1,190
Reversed impairment losses for the year	-	24	15	1	-	-	-	-	15	25
Transfer from construction in progress	-	-2	-	-	-	-	-	2	-	-
Divestments/Disposals	39	33	31	16	-1	-	-1	-	68	49
Other reclassifications	-3	-38	-	-	-	-	-	-	-3	-38
Divested companies	3	-	17	-	-	-	2	-	22	-
Translation differences	-51	39	-163	90	-3	2	-	-	-217	131
Accumulated impairment losses carried forward	-1,047	-986	-4,908	-3,013	-69	-60	-8	-8	-6,032	-4,067
Residual value according to plan carried forward	37,937	37,129	153,679	150,286	2,065	1,699	17,893	11,359	211,574	200,473
Advance payment to suppliers									2,634	855
Total									214,208	201,328

1) Cost for land and buildings includes cost of land and water rights amounting to SEK 14,167 million (13,961), which are not subject to depreciation.

2) Interest during the construction period has been reported as an asset in the amount of SEK 109 million (75) for the year. The average fixed rate term for 2007 was 4.1%.

3) Government grants received, balance brought forward, amount to SEK 4,294 million (4,760). Accumulated interest reported as an asset totalling SEK 757 million (648) is included in cost of buildings.

4) Government grants received during the year amounted to SEK 266 million (76).

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.

Tax assessment values (for Swedish real estate)

	2007	2006
Buildings	63,118	68,356
Land	25,476	25,382
Total	88,594	93,738

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

At 31 December 2007, contractual commitments for the acquisition etc. of property, plant and equipment amounted to SEK 20,338 million (8,532).

Note 22 Investment property

	2007	2006
Cost		
Cost brought forward	2,225	2,505
Investments	1	4
Divestments/Disposals	-144	-178
Reclassifications	-1	-12
Translation differences	100	-94
Accumulated cost carried forward	2,181	2,225
Accumulated depreciation according to plan¹		
Depreciation brought forward	-549	-564
Depreciation for the year	-15	-19
Divestments/Disposals	38	66
Reclassifications	-1	-56
Translation differences	-25	24
Accumulated depreciation carried forward	-552	-549
Impairment losses		
Impairment losses brought forward	-740	-685
Impairment losses for the year	-	-182
Reversed impairment losses for the year	29	-
Divestments/Disposals	18	61
Reclassifications	3	37
Translation differences	-33	29
Accumulated impairment losses carried forward	-723	-740
Residual value according to plan carried forward	906	936
Estimated fair value	1,139	1,156

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

Investment property encompasses 143 (156) 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 112 million in (110). Direct costs for the concerned properties amounted to SEK 251 million (355), of which SEK 97 million (176) is related to properties that did not generate rental income.

At 31 December 2007, contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements amounted to SEK 10 million (9).

Note 23 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 2007	Participation in % 2007	Book value 2007
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	-
Säffle Årjäng Energi AB	556499-8689	Säffle	8,000	100	12
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 Eldistribution AB	556417-0800	Stockholm	8,000	100	11
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	12
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 Kraft AB	556194-9784	Ludvika	89,726	58	19
Västerbergslagens Energi AB	556565-6856	Fagersta	5,566	51	15

Group companies	Corporate Identity Number	Registered office	Number of shares 2007	Participation in % 2007	Book value 2007
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	18,379,840	75	3,240
GZE S.A. Portfolio	RHB 9861	Gliwice	936,177	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 Reinsurance S.A.	(B) 49528	Luxembourg	13,000	100	13
Other companies					9
Total					55,658

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 company respectively.

	Registered office	Participation in % 2007
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		
Dan Tysk Kabel GmbH	Flensburg	97
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	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	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 Distribution System Operator S.A.	Gliwice	75
Vattenfall Wolin-North Sp.z.o.o	Szczecin	75

Note 24 Participations in associated companies

	2007	2006
Balance brought forward	12,126	23,421
New share issues and shareholders' contributions	-10	13
Divestments	-	-11,315
Reclassifications from other shares and participations	570	-
Profit participations and dividends	130	666
Translation differences	553	-659
Balance carried forward	13,369	12,126

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Note 24 continued

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

	Corporate Identity Number	Registered office	Number of shares 2007	Participation in % 2007	Book value Group 2007	Book value Parent Company 2007
Associated companies held by the Parent Company Vattenfall AB						
Nordic countries						
Gulsele AB, Sweden	556001-1800	Sollefteå	84,000	35	346	333
Luleå Energi AB, Sweden	556139-8255	Luleå	54,000	30	229	3
PiteEnergi AB, Sweden	556330-9227	Piteå	70,000	50	154	7
Plusenergi AB, Sweden	556572-4696	Gothenburg	50,000	50	199	170
Preem Gas AB, Sweden	556037-2970	Stockholm	750	30	9	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						
Nordic countries						
Ensted Havn I/S, Denmark	29636223	Aabenraa	500,000	50	553	–
Taggen Vindpark AB, Sweden	556739-6287	Sölvesborg	500	50	–	–
Germany						
DOTI Deutsche Offshore Testfeld und Infrastruktur GmbH & Co. KG	A 200395	Oldenburg		33	71	–
ENSO Strom AG	HRB 965	Dresden	436,926	29	1,132	–
GASAG Berliner Gaswerke AG	HRB 44343	Berlin	8,100,000	32	3,426	–
Kernkraftwerk Krümmel GmbH & Co. oHG	HRB 15033	Hamburg		50	4,144	–
Kernkraftwerk Stade GmbH & Co. oHG	HRB 12163	Hamburg		33	850	–
Kernkraftwerk Brokdorf GmbH & Co. oHG	HRB 17623	Hamburg		20	1,795	–
Städtische Werke AG	HRB 2150	Kassel	121,148	25	426	–
Other companies					20	–
Total					13,369	520

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

	Revenues 2007	Profit 2007	Assets 31 Dec. 2007	Liabilities 31 Dec. 2007
Associated companies held by the Parent Company Vattenfall AB				
Gulsele AB, Luleå Energi AB, PiteEnergi AB, Plusenergi AB, Preem Gas AB, Taggen Vindpark AB and SwePol Link AB	2,229	56	1,678	1,031
Associated companies held by other Group companies than the Parent Company Vattenfall AB				
GASAG Berliner Gaswerke AG	2,932	217	7,398	5,370
Kernkraftwerk Krümmel GmbH & Co. oHG, Kernkraftwerk Stade GmbH & Co. oHG and Kernkraftwerk Brokdorf GmbH & Co. oHG	1,990	448	18,073	10,702
Other companies	2,827	281	4,019	1,963
Profit reported by associated companies divested during 2007		–4		
Total	9,978	998	31,168	19,066

Note 25 Other shares and participations

	2007	2006
Balance brought forward	1,254	747
Investments	6	581
New share issues and shareholders' contributions	11	-
Divestments	-27	-32
Reclassifications to participations in associated companies	-576	-1
Impairment losses	-14	-4
Translation differences	40	-37
Balance carried forward	694	1,254

	Participation in % 2007	Book value Group 2007	Book value Parent Company 2007
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Shares and participations held by the Parent Company Vattenfall AB**Nordic Countries**

Jämtkraft AB, Sweden	20 ¹	23	23
Solibro AB, Sweden	18	3	3
Porjus Infocenter AB, Sweden	35	3	3
Other companies		4	4

Shares and participations held by other Group companies than the Parent Company Vattenfall AB**Germany**

Berliner Energie Umweltsfonds GbR	50	11	-
EHA Energie Handels Gesellschaft mbH & Co. KG	50	13	-
GNS Gesellschaft für Nuklear-Service GmbH	6	24	-
Stadtwerke Eilenburg GmbH	49	53	-
Stadtwerke Parchim GmbH	15	28	-
Stadtwerke Rostock AG	12	381	-
Stadtwerke Wittenberge GmbH	23	26	-
Other companies		88	-

Other countries/companies

Asikkalan Voima Oy, Finland	50	10	-
ELINI, Netherlands	22 ²	27	-

Total		694	33
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1) The share of voting rights is 16%.

2) The share of voting rights is 14%.

Note 26 Share in the Swedish Nuclear Waste Fund

	2007	2006
Balance brought forward	23,321	21,403
Payments	693	501
Disbursements	-714	-689
Returns	843	2,106
Balance carried forward	24,143	23,321

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 dismantle 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 financing of future fees for spent nuclear fuel, etc., is currently ensured by the Act on the Financing of Future Expenses of Spent Nuclear Fuel, etc. (1992:1537). Starting on 1 January 2008, this law has been superseded by a newer Act (2006:647) with the same purpose. Pursuant to this law, the reactor owner shall continue to pay a generation-based fee to the board of the Swedish Nuclear Waste Fund, which manages paid-in 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 2007, the fair value of the Vattenfall Group's share of the Swedish Nuclear Waste Fund was SEK 24,667 million (23,981).

As stated in Note 38 to the consolidated accounts, provisions for future expenses for decommissioning, etc. within Swedish nuclear power operations amount to SEK 21,869 million (18,668).

Contingent liabilities attributable to the Swedish Nuclear Waste Fund are described in Note 44 to the consolidated accounts.

Note 27 Other non-current receivables

	Receivables from associated companies		Other receivables	
	2007	2006	2007	2006
Balance brought forward	468	2,249	5,152	2,036
New receivables	-	46	1,855	8,194
Payments received	-32	-1,791	-1,055	-4,979
Impairment losses	-46	-	-1,106	-4
Divested companies	-	-36	-88	-21
Reclassifications	-	-	-52	-42
Translation differences	2	-	30	-32
Balance carried forward	392	468	4,736	5,152

Breakdown of receivables:

	2007	2006	2007	2006
Long-term interest-bearing receivables	59	60	2,426	3,680
Long-term non-interest-bearing receivables	333	408	2,310	1,472
Total	392	468	4,736	5,152

Note 28 Inventories

	2007	2006
Nuclear fuel	4,249	3,710
Materials and spare parts	2,391	2,263
Fossil fuel	2,214	2,231
Other	683	1,180
Total	9,537	9,384

Inventories recognised as an expense in 2007 amount to SEK 17,811 million (20,019). Inventory write-downs amount to SEK 29 million (200) during the year.

Note 29 Intangible assets: current

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

	Emission allowances		Certificates		Total	
	2007	2006	2007	2006	2007	2006
Balance brought forward	746	-	-	-	746	-
Purchases	91	972	166	-	257	972
Received free of charge	-	-	8	-	8	-
Sold	-448	-	-	-	-448	-
Redeemed	-347	-	-	-	-347	-
Reclassifications from inventories	-	-	546	-	546	-
Impairment losses	-50	-209	-	-	-50	-209
Translation differences	16	-17	21	-	37	-17
Balance carried forward	8	746	741	-	749	746

Note 30 Trade receivables and other receivables

	2007	2006
Accounts receivable-trade	20,935	18,084
Receivables from associated companies	365	1,622
Other receivables	6,820	6,738
Total	28,120	26,444

Age analysis

The collection period within the Vattenfall Group is normally between 10 and 30 days.

	2007			2006		
	Receivables, gross	Receivables impaired	Receivables, net	Receivables, gross	Receivables impaired	Receivables, net
Accounts receivable-trade						
Non due	18,836	19	18,817	16,393	18	16,375
Due 1-30 days	1,118	5	1,113	867	1	866
Due 31-90 days	363	11	352	402	5	397
Due > 90 days	1,783	1,130	653	1,710	1,264	446
Total	22,100	1,165	20,935	19,372	1,288	18,084
Receivables from associated companies						
Non due	352	-	352	1,595	-	1,595
Due 1-30 days	9	-	9	24	-	24
Due 31-90 days	-	-	-	1	-	1
Due > 90 days	4	-	4	2	-	2
Total	365	-	365	1,622	-	1,622
Other receivables						
Non due	6,645	16	6,629	6,073	17	6,056
Due 1-30 days	49	-	49	399	-	399
Due 31-90 days	97	-	97	3	-	3
Due > 90 days	108	63	45	325	45	280
Total	6,899	79	6,820	6,800	62	6,738

Receivables impaired as above:

	2007
Balance brought forward	1,350
Acquired companies	52
Provision for impairment losses	231
Impairment losses	-263
Impairments reversed	-65
Reclassifications	-1
Divested companies	-60
Balance carried forward	1,244

Note 31 Prepaid expenses and accrued income

	2007	2006
Prepaid insurance premiums	14	9
Prepaid expenses, other	440	919
Prepaid expenses and accrued income, electricity	2,270	1,623
Accrued income, other	2,110	1,787
Total	4,834	4,338

Note 32 Short-term investments

	2007	2006
Interest-bearing investments	11,257	6,670
Shares	839	864
Total	12,096	7,534

Note 33 Cash and cash equivalents

	2007	2006
Cash and bank balances	3,995	3,343
Cash equivalents	6,568	11,291
Total	10,563	14,634

Note 35 Other interest-bearing liabilities

	Non-current portion		Current portion		Total	
	2007	2006	2007	2006	2007	2006
Bond loans	30,722	30,908	2,154	6,412	31,598	37,320
Liabilities to credit institutions	5,373	7,416	1,506	831	8,157	8,247
Liabilities to minority owners	5,446	4,644	345	312	5,791	4,956
Liabilities to associated companies	-	2,973	11,105	7,985	11,105	10,958
Other liabilities	1,102	927	95	256	1,197	1,183
Total	42,643	46,868	15,205	15,796	57,848	62,664

Of the above liabilities, the following amounts are due after more than five years: Bond loans SEK 14,810 million (13,049), Liabilities to credit institutions SEK 1,777 million (3,477), Liabilities to minority owners SEK 5,296 million (4,494) and Other liabilities SEK 150 million (147).

Note 36 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.

Liquidity risk

Liquidity 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 6.5 years (6.2) excluding Capital Securities and loans from minority owners and associated companies. The aim is for it to exceed 5 years. Including Capital Securities the average maturity was 6.7 years (6.6).

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 9.6 billion (9.4) 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

Note 34 Capital Securities

In June 2005, Vattenfall issued Capital Securities, which are reported as interest-bearing non-current liabilities. The maturity of the Capital Securities is perpetual and they are junior to all of Vattenfall's unsecured 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.

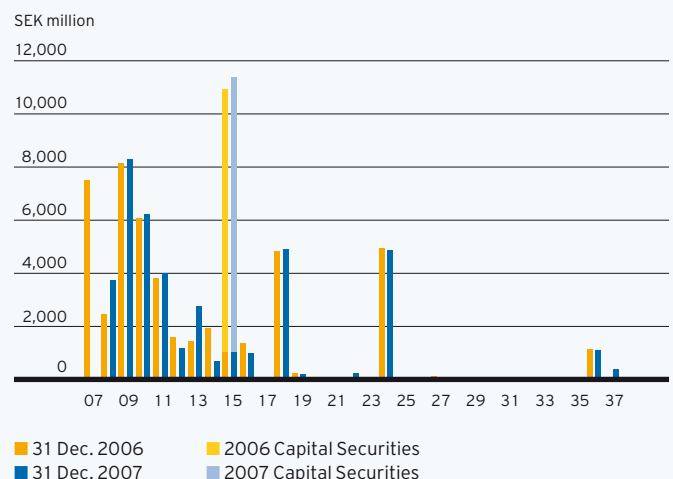
	2007	2006
Balance brought forward	8,911	9,268
Discount allocation	18	16
Translation differences	412	-373
Balance carried forward	9,341	8,911

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

	2007	2006
Funds from operations (FFO)	34,049	35,673
Interest paid	2,902	2,927
FFO plus interest paid (a)	36,951	38,600
Interest expenses (b)	3,325	3,317
Interest Coverage Trigger Ratio (a/b)	11.11	11.64

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 maintain a rating in the Single A category.

Maturity profile in debt portfolio¹



1) Excluding loans from minority owners and associated companies.

Continued on page 100

Note 36 continued

Borrowing programmes and credit facilities

	Maximum aggregated amount	Currency	Maturity	Used proportion, %	Reported external liability
Programmes					
Commercial Paper	15,000	SEK		–	–
Euro Commercial Paper	2,000	USD		56	–
Medium Term Note	10,000	SEK		6	652
Euro Medium Term Note	6,000	EUR		58	30,946

Committed credit facilities

Revolving Credit Facility ¹⁾	1,000	EUR	2013	–	–
Bank overdraft facilities	100	SEK		–	–

Other credit facilities

Bank overdraft facilities and other lines of credit	11,572	SEK		1	–
Total					31,598

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

Benchmark bonds

Type	Currency	Amount	Coupon, %	Maturity
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 in terms of duration, which at year-end was 2.6 years (2.6) 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. Including Capital Securities the duration was 3.3 years (3.3). To adjust the duration of borrowing, interest rate swaps, interest rate forwards and options, among other things, are used.

Remaining fixed rate term in loan portfolio

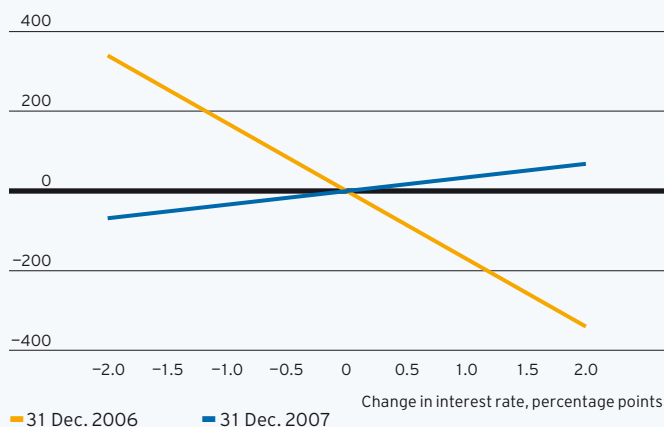
Excluding Capital Securities and loans from minority owners and associated companies. Nominal amounts.

	SEK	EUR	Other	Total
< 3 months	–9,782	2,173	–	–7,609
3 months–1 year	13,419	7,193	636	21,248
1 year–5 years	11,625	9,843	643	22,111
> 5 years	4,248	1,962	–	6,210
Total	19,510	21,171	1,279	41,960

Average financing rate, %	3.5	3.1	4.3	3.3
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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.

Remaining fixed rate term in loan portfolio

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

	Debt	Derivatives	Total
< 3 months	5,043	–12,652	–7,609
3 months–1 year	5,077	16,171	21,248
1 year–5 years	17,006	5,105	22,111
> 5 years	14,281	–8,071	6,210
Total	41,407	553	41,960

Currency risk

Currency risk is the risk of negative effects on Vattenfall's earnings and balance sheet caused by exchange rate fluctuations. Vattenfall is exposed to currency risk through exchange rate fluctuations attributable to future cash flows (transaction exposure) and in the revaluation of net assets in non-Swedish subsidiaries (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 excl Capital Securities. Nominal amounts.

Original currency	Debt	Derivatives	Total
DKK	1,278	–	1,278
EUR	43,214	–10,887	32,327
JPY	3,009	–3,009	–
NOK	416	–416	–
PLN	1	–	1
SEK	8,769	16,482	25,251
USD	1,617	–1,617	–
Total	58,304	553	58,857

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 contracts. In the German subsidiaries, transaction exposure arises primarily in USD in conjunction with the purchase of fuel. This currency exposure is also hedged with forward exchange contracts.

Consolidated operating revenues/expenses per currency, %

Currency	Revenues	Expenses
EUR	65	67
SEK	24	20
PLN	7	8
DKK	4	4
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 unit, 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 3,190 million (2,390). The reporting principles of translation exposure are described in Note 2 to the consolidated accounts under the headings Derivative instruments and Hedging, respectively.

Translation exposure

Currency	Equity	Hedging after tax	Net exposure after tax
EUR	78,246	39,326	38,920
PLN	18,818	2,840	15,978
DKK	14,231	5,617	8,614
Other	464	186	278
Total	111,759	47,969	63,790

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 counterparties with low credit risk. The proportion of equities in the long-term investment portfolio may not exceed 30% of assets. As of 31 December 2007, the proportion of equities was 20% (23%). The average interest rate was 4.1% (3.9%) while the average duration was 3.8 years (3.3).

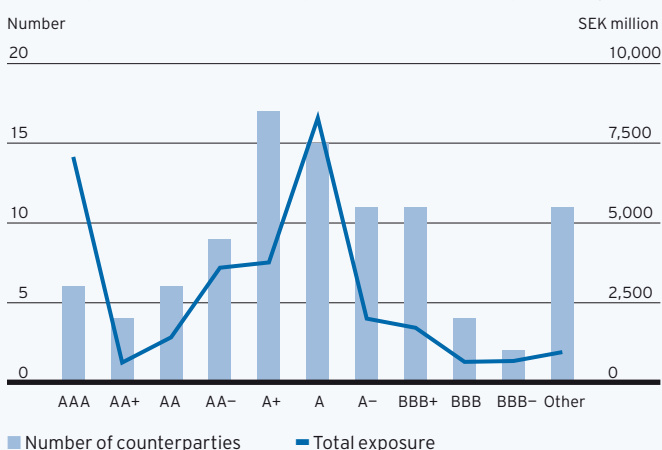
Credit risks are managed within the framework of established limits based on external ratings or internal credit assessments. Individual limits are established for each counterparty, and counterparties are reassessed on a regular basis. Exposures are monitored in relation to credit limits on a daily basis.

Prior to entering into a long-term agreement, a general master agreement, such as an ISDA, FEMA or EFET, is required. In the Nordic countries, most financial electricity contracts are settled via Nord Pool and most credit risk that arises is in the marketplace. In Germany, prices are hedged in a similar manner against EEX, even if OTC trade between bilateral counterparties is also common.

Credit risks

Type of instrument	Exposure
Electricity derivatives, positive fair values	2,736
Electricity derivatives, settlement risk	1,832
Interest and currency derivatives, positive fair values	1,007
Interest-bearing investments including larger bank balances	17,676
Shares	839
Total	24,090

Exposure in interest and currency derivatives adjusted for ISDA agreements or equivalents amounts to SEK 1,007 million (1,912). Without adjustment, exposure is SEK 2,293 million (3,649).

Counterparties – number of exposures, SEK million, per rating class

■ Number of counterparties ■ Total exposure

The chart above shows the counterparties to Vattenfall in which the exposures are greater than EUR 5 million per counterparty. The breakdown is based on rating classes and the size of the credit exposure per rating class. The rating classes correspond to Standard & Poor's classes. "Other" denotes exceptions, pertaining to contracts entered into a long time ago which Vattenfall has taken over in connection with acquisitions.

Note 37 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.

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 trust and 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 Reporting Board, UFR 3, 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 97 million (136). Alecta's surplus can be distributed among the policyholders and/or the insureds. At the end of 2007, Alecta's surplus in the form of its so-called collective funding amounted to 152% (144%). Collective funding consists of the fair value of Alecta's assets as a percentage of the insurance obligations calculated in accordance with Alecta's actuarial calculation assumptions.

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 and Vattenfall Europe Hamburg.

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 classified as a defined contribution plan and is reported as such since the benefit is based on paid-in contributions 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 obligation. 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 pensionable salary.

Continued on page 102

Note 37 continued

Defined benefit obligations

	2007	2006
Present value of unfunded obligations	16,876	17,028
Present value of fully or partly funded obligations	16,881	18,619
Present value of obligations	33,757	35,647
Fair value of plan assets	16,684	15,977
Present value of net obligations	17,073	19,670
Unrecognised actuarial gains(+)/ losses(-) of the obligations	504	-3,128
Unrecognised actuarial gains(+)/ losses(-) of plan assets	158	335
Pension provisions	17,735	16,877

Changes in obligations

	2007	2006
Balance brought forward	35,647	37,615
Benefits paid by the plan	-1,734	-1,681
Service costs	609	612
Difference between expected and actual return (actuarial gain(+) or loss(-))	-3,602	-1,201
Current interest expense	1,576	1,523
Translation differences	1,261	-1,221
Balance carried forward	33,757	35,647

Changes in plan assets

	2007	2006
Balance brought forward	15,977	16,248
Benefits paid by the plan	-343	-400
Expected return on plan assets	765	751
Difference between expected and actual return (actuarial gain(+) or loss(-))	-171	-205
Translation differences	456	-417
Balance carried forward	16,684	15,977

Plan assets consist of the following

	2007	2006
Equity securities	4,149	4,586
Debt instruments	10,551	9,579
Property	638	559
Other	1,346	1,253
Total	16,684	15,977

Historical information

	2007	2006	2005	2004
Present value of obligations	33,757	35,647	37,615	32,313
Fair value of plan assets	16,684	15,977	16,248	14,972
Present value of net obligations	17,073	19,670	21,367	17,341

The Group expects to pay SEK 1,073 million in contributions to defined benefit plans in 2008.

Pension costs

	2007	2006
Defined benefit plans:		
Current service cost	558	547
Interest expense	1,576	1,523
Expected return on plan assets	-765	-751
Past service cost	52	60
Other	29	57
Total cost for defined benefit plans	1,450	1,436
Cost for defined contribution plans	440	444
Total pension costs	1,890	1,880

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

	2007	2006
Cost of products sold	846	678
Selling expenses	66	93
Administrative expenses	167	337
Financial expenses	811	772
Total pension costs	1,890	1,880

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

	2007	2006
Discount rate	4.50-5.25	3.75-4.50
Expected return on plan assets	4.25-5.25	4.35-5.25
Future annual salary increases	2.5-3.5	2.5-3.5
Future annual pension increases	2.0	1.0-2.5

Note 38 Other provisions

	Non-current portion		Current portion		Total	
	2007	2006	2007	2006	2007	2006
Provisions for future expenses of nuclear operations	29,496	26,078	317	280	29,813	26,358
Provisions for future expenses of mining operations and other environmental measures/undertakings	10,890	9,452	1,085	843	11,975	10,295
Personnel-related provisions for non-pension purposes	3,708	3,642	1,096	1,045	4,804	4,687
Provisions for tax and legal disputes	6,022	5,014	1,527	1,488	7,549	6,502
Other provisions	1,498	1,178	611	197	2,109	1,375
Total	51,614	45,364	4,636	3,853	56,250	49,217

A discount rate of 5.0% (5.0%) has been used for provisions in Sweden. In Germany a discount rate of 5.5% (5.0%) was used. See also Note 51 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 radio-

active materials used by the plants. The provisions include future expenses for the management of low- and medium-level radioactive waste.

For the Swedish operations, current estimations indicate that approximately 83% of the provisions will result in disbursements after 2017. The remaining 17% are estimated to result in relatively evenly distributed disbursements over the years 2008-2017.

Current plans for the decommissioning of the German nuclear power operations entail about 92% of the provisions resulting in cash flows after 2009. For 2008 and 2009, respectively, disbursements are estimated at about 4% of the provisions per year.

Provisions for future expenses of nuclear operations (changes in 2007)	Sweden	Germany	Total
Balance brought forward	18,668	7,690	26,358
Provisions for the period	161	23	184
Discounting effects	912	374	1,286
Revaluation (within the balance sheet)	2,978	-238	2,740
Provisions used	-850	-266	-1,116
Translation differences	-	361	361
Balance carried forward	21,869¹	7,944²	29,813

1) Of which approximately 40% pertains to the dismantling, etc. of nuclear power plants and approximately 60% to the handling of spent radioactive fuel.

2) Of which approximately 50% pertains to the dismantling, etc. of nuclear power plants and approximately 50% to the handling of spent radioactive fuel.

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 66% of the provisions will result in cash outflows later than 2010. For 2008, disbursements are estimated at about 9% of the provisions, while disbursements corresponding to the remaining approx. 15% are estimated to be relatively evenly distributed over the years 2009–2010.

Provisions for mining operations, etc. (changes in 2007)	
Balance brought forward	10,295
Provisions for the period	834
Discounting effects	440
Revaluation (within the balance sheet)	516
Provisions used	-378
Reversed provisions	-252
Translation differences	520
Balance carried forward	11,975

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 23% of the provisions that have been made are expected to result in disbursements in 2008, while about 35% are expected to be disbursed in 2009 and 2010. Thereafter, approximately 42% will be relatively evenly distributed over the years 2011–2022.

Personnel-related provisions for non-pension purposes (changes in 2007)	
Balance brought forward	4,687
Provisions for the period	1,074
Discounting effects	177
Provisions used	-1,049
Reversed provisions	-330
Divested companies	-8
Translation differences	253
Balance carried forward	4,804

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 regarding cable laying on land in eastern Germany.

Approximately 31% of the provisions for tax and legal disputes are expected to result in disbursements in 2008–2009. The remaining provisions are estimated to result in cash flows during the years 2010–2011 (61%) and 8% thereafter.

Provisions for tax and legal disputes (changes in 2007)	
Balance brought forward	6,502
Provisions for the period	669
Discounting effects	533
Provisions used	-279
Reclassified provisions	-6
Reversed provisions	-198
Divested companies	-1
Translation differences	329
Balance carried forward	7,549

Other provisions:

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

Approximately 29% of these provisions are expected to result in disbursements in 2008, while the remaining approximately 58% are expected to result in disbursements during 2009–2011 and 13% thereafter.

Other provisions (changes in 2007)	
Balance brought forward	1 375
Provisions for the period	764
Discounting effects	17
Provisions used	-67
Reversed provisions	-48
Divested companies	-2
Translation differences	70
Balance carried forward	2,109

Note 39 Other noninterest-bearing liabilities (non-current)

Of the total liabilities of SEK 3,285 million (2,320), SEK 2,135 million (1,411) falls due after more than five years. Of the total liabilities for 2007 SEK 2,395 million refer to accrued expenses, SEK 589 million to deferred income and SEK 301 million to other liabilities.

Note 40 Trade payables and other liabilities

	2007	2006
Accounts payable-trade	10,441	10,189
Liabilities to associated companies	784	1,051
Other liabilities	4,183	3,388
Total	15,408	14,628

Note 41 Accrued expenses and deferred income

	2007	2006
Accrued personnel-related costs	2,976	3,263
Accrued expenses, emission allowances	8	442
Accrued expenses, connection fees	124	455
Accrued nuclear power-related fees and taxes	184	61
Accrued interest expense	1,373	1,619
Other accrued expenses	3,381	2,982
Deferred income and accrued expenses, electricity	3,942	3,919
Other deferred income	980	1,626
Total	12,968	14,367

Note 42 Carrying amounts and fair values of financial assets and financial liabilities by category

	2007		2006	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets at fair value through profit or loss				
Derivatives with positive fair values for financial assets held for trading ¹	5,442	5,442	5,370	5,370
Short-term investments	12,096	12,096	7,534	7,534
Cash equivalents (Note 33)	6,568	6,568	11,291	11,291
Total	24,106	24,106	24,195	24,195
Loans and receivables				
Share in the Swedish Nuclear Waste Fund	24,143	24,667	23,321	23,981
Other non-current receivables	5,128	5,128	5,620	5,620
Trade receivables and other receivables	28,120	28,120	26,444	26,444
Cash and bank balances (Note 33)	3,995	3,995	3,343	3,343
Total	61,386	61,910	58,728	59,388
Available-for-sale financial assets				
Other shares and participations	694	700	1,254	1,262
Total	694	700	1,254	1,262
Financial liabilities at fair value through profit or loss				
Derivatives with negative fair values for financial liabilities held for trading ²	14,242	14,242	12,823	12,823
Total	14,242	14,242	12,823	12,823
Other financial liabilities				
Capital Securities	9,341	9,834	8,911	9,741
Other non-current interest-bearing liabilities	42,643	44,992	46,868	47,844
Other non-current noninterest-bearing liabilities	3,285	3,285	2,320	2,320
Current interest-bearing liabilities	15,205	15,423	15,796	16,417
Trade payables and other liabilities	15,408	15,408	14,628	14,628
Total	85,882	88,942	88,523	90,950

When an active market is available, fair values have been determined according to quoted market prices. If no active market is available, a so-called mark-to-model technique is used. In the items listed above, the following amounts are valued at mark-to-model:

Derivatives with positive fair values at SEK 221 million (67).

Other shares and participations at SEK 694 million (1,254).

Derivatives with negative fair values at SEK 243 million (17).

1) Of which, derivatives with positive fair values for:

	2007	2006
Fair value hedges	1,094	1,705
Cash flow hedges	1,414	519
Hedges of net investments in foreign operations	10	474

	2,518	2,698
Other derivatives held for trading	2,924	2,672
Total	5,442	5,370

2) Of which, derivatives with negative fair values for:

	2007	2006
Fair value hedges	938	806
Cash flow hedges	9,331	8,999
Hedges of net investments in foreign operations	1,097	3

	11,366	9,808
Other derivatives held for trading	2,876	3,015
Total	14,242	12,823

Note 43 Pledged assets

	2007	2006
For own liabilities and provisions		
Liabilities to credit institutions:		
Real estate mortgages as security for loans	1,274	1,173
Blocked bank funds as security for trading on energy exchanges	53	40
Blocked bank funds as security for redemption of minority shares	3,165	2,913
Other	6	3
Total	4,498	4,129

Pledged assets reported by Vattenfall AB include a pledge of SEK 3,165 million for the possible future payment to minority shareholders for the redemption of shares in Vattenfall Europe AG. The amount has been deposited in a blocked account with a bank. Vattenfall receives a market rate of interest on this deposit. In the event the redemption process were to be broken off, Vattenfall AB would be able to recover the deposited amount.

Note 44 Contingent liabilities

	2007	2006
Guarantees	1,206	1,561
Other contingent liabilities	10,227	11,071
Swedish Nuclear Waste Fund	6,132	5,643
Total	17,565	18,275
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

1) Adjusted value compared to previously published information in Vattenfall's 2006 Annual Report.

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 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 contingent liabilities specified above, guarantees are put in place for the fulfilment of various contractual obligations.

In 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 counterparties as part of so-called head leases, lasting a maximum of 99 years, and thereafter leased back for 24 years as part of subleases. After the subleases expire, Vattenfall has the right to regain the right of use through a call option. Rent from the US counterparties 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 into. Should the lessees or the underlying customers fail to meet their obligations during the lease period, this would incur termination costs for Vattenfall. On the balance sheet date, these obligations amounted to a maximum of SEK 1,046 million (1,329), which is included in the reported contingent liabilities.

In 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 counterparties to be leased back for 15 years. Once the lease 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 lease payments, including the sums for the options. Should Vattenfall wish to prematurely redeem the lease agreements, this would give rise to costs for Vattenfall. On the balance sheet date, these costs amounted to a maximum of SEK 70 million (92). This amount is not included in the reported contingent liabilities.

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, as of 1 January 2007, is EUR 170 million (170) per claim and entails an obligation to keep available liquid assets corresponding to twice this amount, i.e., EUR 340 million (340).

Vattenfall AB and Vattenfall Europe AG have provided security for the energy trading conducted by the subsidiary Vattenfall Trading Services GmbH, consisting of guarantees to a total value of EUR 1,202 million (967). On the balance sheet date, guarantees totalling EUR 179 million (380), or SEK 1,697 million (3,436), 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 (the 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 take care of 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 6,132 million (5,643) to cover the risk that the existing funds in the Swedish Nuclear Waste Fund should, over time, prove to be insufficient. The reported contingent liabilities include these commitments. 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%. Starting on 1 January 2008, a new law (2006:647) applies for financing of future fees for spent nuclear fuel. Compliance with the new law will result in a substantial increase in the size of future security. For 2008 this means that the combined security for the Swedish Nuclear Waste Fund will amount to SEK 17,113 million. This amount also applies for 2009.

Note 45 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 46 Average number of employees and personnel costs

Average number employees by country	2007			2006		
	Men	Women	Total	Men	Women	Total
Sweden	6,689	2,009	8,698	6,588	1,970	8,558
Denmark	553	100	653	271	48	319
Finland	276	214	490	352	202	554
Germany	15,093	4,677	19,770	15,269	4,667	19,936
Poland	2,110	649	2,759	2,169	682	2,851
Other countries	23	3	26	74	16	90
Total	24,744	7,652	32,396	24,723	7,585	32,308

Personnel costs	2007	2006
Salaries and other remuneration	14,073	13,799
Social security costs	4,747	5,450
(of which pension costs) ¹	(1,387)	(2,136)
Total	18,820	19,249

1) SEK 57 million (77) of the pension costs are attributable to senior executives, i.e. presidents and vice presidents and former presidents and vice presidents. The Group's outstanding pension obligations attributable to these executives total SEK 469 million (463).

Salaries and other compensation	2007			2006		
	Senior executives ¹	Other employees	Total	Senior executives ¹	Other employees	Total
Sweden	47	3,846	3,893	48	3,633	3,681
Denmark	1	104	105	–	162	162
Finland	5	203	208	5	223	228
Germany	212	9,158	9,370	89	9,132	9,221
Poland	24	470	494	21	478	499
Other countries	–	3	3	–	8	8
Total²	289	13,784	14,073	163	13,636	13,799

Social security costs	2007	2006
Sweden	2,145	1,975
Denmark	11	15
Finland	52	58
Germany	2,444	3,297
Poland	95	102
Other countries	–	3
Total	4,747	5,450

1) Senior executives comprise board members and senior executives but also 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 81 million (32).

Benefits to board members and senior executives of Vattenfall AB

SEK thousands	Directors' fees and base salary 2007 including vacation pay	Other remuneration and benefits 2007	Pension costs 2007	Estimated variable compensation for 2007 to be paid 2008
Dag Klackenbergh, Chairman of the Board	512	–	–	–
Maarit Aarni-Sirviö, Director (until 26 April 2007)	73	–	–	–
Carl-Gustaf Angelin, Director	45	–	–	–
Johnny Bernhardsson, Director	53	–	–	–
Christer Bådholm, Director	343	–	–	–
Ronny Ekwall, Director	45	–	–	–
Greta Fossum, Director	232	–	–	–
Jonas Iversen, Director (from 26 April 2007)	159	–	–	–
Peter Lindell, Director (until 26 April 2007)	90	–	–	–
Hans-Olov Olsson, Director	306	–	–	–
Lone Fønss Schrøder, Director	296	–	–	–
Tuija Soanjärvi, Director (from 26 April 2007)	206	–	–	–
Anders Sundström, Director	279	–	–	–
Lars Carlsson, Deputy director	45	–	–	–
Stig Lindberg, Deputy director	45	–	–	–
Per-Ove Lööf, Deputy director	57	–	–	–
Lars G. Josefsson, President and CEO	8,603	108	7,711	–
Jan Erik Back, First Senior Executive Vice President and CFO	3,165	113	937	378
Hans von Uthmann, Senior Executive Vice President	4,554	72	884	294
Klaus Rauscher, Senior Executive Vice President (until 19 July 2007)	4,456	49,575 ¹	2,656	–
Hans-Jürgen Cramer, Senior Executive Vice President (from 19 July 2007)	1,712	20,919 ¹	594	1,525
Tuomo Hatakka, Senior Executive Vice President	2,399	479	720	757
Mats Fagerlund, Executive Vice President	4,068	1,501	2,405	3,763
Lennart Billfalk, Executive Vice President (until 31 July 2007)	2,527	39	1,621	–
Ann-Charlotte Dahlström, Senior Vice President Personnel	2,936	81	2,492	331
Knut Leman, Senior Vice President Communications	2,615	96	2,485	302
Helmar Rendez, Executive Vice President (from 1 September 2007)	724	19	188	107
Total	40,545	73,002	22,693	7,457

1) In connection with the end of employment, the Company was charged with costs for severance pay.

Board of Directors

In 2007, the Chairman of the Board received a fee of SEK 512 thousand (431) while other directors received combined fees of SEK 2,069 thousand (1,693) (breakdown shown in the table above).

The four directors serving on the Board's Audit Committee also received fees as follows: SEK 64 thousand (52) each for those not employed by Vattenfall and SEK 13 thousand (13) for the employee representative serving on this assignment in 2007. These amounts are included in the table above under the heading Directors' fees.

President and Chief Executive Officer

In 2007, 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 8,711 thousand (7,911). As of 2005, the CEO no longer receives a variable salary component.

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*Salaries and other benefits*

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 31,669 thousand (35,213). A breakdown and estimated variable compensation are shown in the table above.

Pension benefits

The costs for pension benefits are shown in the table above.

Jan Erik Back and Tuomo Hatakka have defined contribution pension solutions.

For other members of Executive Group Management, the retirement 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 45% 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 level 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. In the case of the defined benefit solution, premiums totalling SEK 160 thousand were paid to Alecta and for ITP-K. The remainder of the pension cost, the majority, 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.

Continued on page 108

Note 46 continued

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.

Terms of notice on the part of the Company

For the Swedish 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 any new income during the period in question. Both Tuomo Hatakka and Helmar Rendez, 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 52.)

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 operations and for 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 approximately 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 47 Gender distribution among senior executives

	Women, %		Men, %	
	2007	2006	2007	2006
Gender distribution among Company directors	9	10	91	90
Gender distribution among other senior executives	14	13	86	87

Note 48 Leasing

Leasing expenses

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

	2007	2006
Machinery/Equipment		
Cost	658	157
Accumulated depreciation according to plan	-101	-38
Residual value according to plan	557	119

Future payment commitments, as of 31 December 2007, for leasing contracts and rental contracts are broken down as follows:

	Financial leasing, nominal	Financial leasing, present value	Operating leasing
2008	69	67	571
2009	68	64	510
2010	67	60	457
2011	67	57	418
2012	70	56	401
2013 and beyond	610	450	1,343
Total	951	754	3,700

The current year's leasing expenses for Group assets amounted to SEK 580 million (534).

Certain, major leasing undertakings are described further in Note 44 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 2007, cost of assets reported under Operating leasing amounted to SEK 1,943 million (2,047). Accumulated depreciation amounted to SEK 851 million (841) and accumulated impairment losses amounted to SEK 34 million (30).

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

	Financial leasing	Operating leasing
2008	-	108
2009	-	100
2010	-	90
2011	-	87
2012	-	85
2013 and beyond	-	159
Less: Financial income	-	-9
Total	-	620

Note 49 Auditors' fees, etc.

	2007	2006
Statutory audit		
Ernst & Young	37	29
PricewaterhouseCoopers	12	11
BDO	7	8
Swedish National Audit Office	1	1
Other	-	1
Total	57	50
Other fees		
Ernst & Young	11	19
PricewaterhouseCoopers	9	10
BDO	3	9
Other	1	2
Total	24	40

Note 50 Related party disclosures

Vattenfall AB is 100%-owned by the Swedish state. The Vattenfall Group's products and services are offered to the state, state authorities and state companies in competition with other vendors under generally accepted commercial terms. In a similar manner, Vattenfall AB and its Group companies purchase products and services from state authorities and companies at market prices and otherwise under generally accepted commercial terms. No significant share of the Vattenfall Group's net sales, purchasing or earnings is attributable to the Swedish state or any of its authorities or companies.

Disclosures of transactions with key persons in executive positions in the Company are shown in Note 46 to the consolidated accounts, Average number of employees and personnel costs.

Disclosures of transactions with associated companies in 2007 and associated receivables and liabilities as per 31 December 2007 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 7 million. Purchases from the company amounted to SEK 186 million. Trade receivables as per 31 December amounted to SEK 355 million. Trade liabilities to the company amounted to SEK 17 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 5 million. Trade receivables as per 31 December amounted to SEK 5 million.

Plusenergi AB

The main product consists of electricity sales to both retail 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 25 million, while purchases from the company amounted to SEK 1 million. Trade receivables as per 31 December totalled SEK 8 million, while trade liabilities amounted to SEK 4 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 335 million, while purchases from the company amounted to SEK 1 million. Trade receivables as per 31 December totalled SEK 4 million.

Gulsele AB

Gulsele sells electricity generated by its own hydro power plants. Vattenfall's interest income from the company amounted to SEK 2 million.

Ensted Havn I/S

This is a deep-sea harbour that Vattenfall uses as a coal depot. Vattenfall's sales revenue from the company amounted to SEK 6 million, while purchases from the company amounted to SEK 177 million. Trade receivables and trade liabilities as per 31 December amounted to SEK 3 million and SEK 43 million, respectively.

Kernkraftwerk Brokdorf GmbH & Co. oHG

This is a nuclear power plant from which Vattenfall purchases electricity. Purchases amounted to SEK 340 million. Sales revenue from the company amounted to SEK 2 million.

Vattenfall's interest expense to the company amounted to SEK 34 million. Trade liabilities and loan liabilities as per 31 December amounted to SEK 99 million and SEK 3,485 million, respectively.

Kernkraftwerk Krümmel GmbH & Co. oHG

This is a nuclear power plant from which Vattenfall purchases electricity. Purchases amounted to SEK 1,449 million. Sales revenue from the company amounted to SEK 622 million.

Vattenfall's interest expense to the company amounted to SEK 199 million. Trade receivables amounted to SEK 114 million as per 31 December. Trade liabilities and loan liabilities as per 31 December amounted to SEK 541 million and SEK 5,898 million, respectively.

Kernkraftwerk Stade GmbH & Co. oHG

This is a nuclear power plant that is being decommissioned. Vattenfall's interest expense to the company amounted to SEK 69 million. Trade receivables amounted to SEK 109 million as per 31 December. Trade liabilities and loan liabilities as per 31 December amounted to SEK 13 million and SEK 1,700 million, respectively.

GASAG Berliner Gaswerke AG

GASAG Berliner Gaswerke sells, distributes and stores natural gas in the Berlin area. Vattenfall received SEK 72 million in sales revenue from the company, and purchases from the company totalled SEK 2,550 million. Trade receivables amounted to SEK 1 million, while trade liabilities amounted to SEK 385 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 2,173 million in sales revenue from the company, while purchases amounted to SEK 539 million. Trade receivables and liabilities as per 31 December amounted to SEK 137 million and SEK 1 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 498 million, while purchases from the company amounted to SEK 503 million.

Note 51 Important estimations and assessments

The various provisions made in Vattenfall's consolidated balance sheet are reviewed on an annual basis. The review of 2007 has led to changes in earlier assumptions about discount rates in the calculation of pension provisions in Germany. The discount rate was adjusted from 4.50% to 5.25% for pension plans in Germany. For pension provisions in Sweden, the discount rate was adjusted from 3.75% to 4.50% compared with a year ago.

The discount rate for other provisions than pension provisions is also unchanged compared with a year ago, at 5.0%, for provisions made in Sweden. For such provisions made in Germany the discount rate was adjusted from 5.0% to 5.50%.

Note 52 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.

PARENT COMPANY

Parent Company Income Statement

Amounts in SEK million, 1 January – 31 December	Note	2007	2006
Net sales	4, 5	25,223	26,244 ¹
Cost of products sold	6	-14,974	-15,530 ¹
Gross profit		10,249	10,714
Selling expenses		-857	-947
Administrative expenses		-1,657	-1,485
Research and development costs		-280	-183
Other operating income	7	168	688
Other operating expenses	8	-185	-462
Operating profit	9, 10	7,438	8,325
Result from participations in Group companies	11	1,038	4,829
Result from participations in associated companies	12	-2	160
Result from other shares and participations	13	-5	11
Interest income and similar profit/loss items	14	1,545	3,752
Interest expenses and similar profit/loss items	15	-6,046	-3,039
Group contributions		1,564	2,068
Profit before appropriations and tax		5,532	16,106
Appropriations	16	452	-2,071
Profit before tax		5,984	14,035
Income tax expense	17	-1,529	-2,486
Profit for the year		4,455	11,549

1) Net sales and Cost of products sold for 2006 are adjusted compared to previously published information in Vattenfall's 2006 Annual Report. See Note 2 to the consolidated accounts, Accounting Principles.

Parent Company Balance Sheet

Amounts in SEK million	Note	31 Dec. 2007	31 Dec. 2006
Assets			
Non-current assets			
Intangible assets	18		
Capitalised development costs		69	120
Concessions and similar rights		3	10
Renting and similar rights		17	23
Total intangible assets: non-current		89	153
Property, plant and equipment	19		
Buildings and land		11,411	11,234
Plants and machinery and other technical installations		7,367	7,197
Equipment, tools, and fixtures and fittings		41	28
Construction in progress		988	1,360
Total property, plant and equipment		19,807	19,819
Other non-current assets			
Participations in Group companies	20, 21	55,658	55,715
Receivables from Group companies	22	6,512	5,195
Participations in associated companies	20, 21	520	520
Receivables from associated companies	22	362	392
Other shares and participations	20, 21	33	38
Deferred tax assets	17	321	395
Other non-current receivables	22	2,196	3,433
Total other non-current assets		65,602	65,688
Total non-current assets		85,498	85,660
Current assets			
Inventories	23	310	770
Intangible assets: current	24	432	5
Current receivables	25	40,032	50,215
Current tax assets	17	274	-
Cash and cash equivalents	26	352	181
Total current assets		41,400	51,171
Total assets		126,898	136,831
Equity, provisions and liabilities			
Equity			
Restricted equity			
Share capital (131,700,000 shares with a quota value of SEK 50)		6,585	6,585
Statutory reserve		1,286	1,286
Non-restricted equity			
Retained earnings		19,667	16,295
Profit for the year		4,455	11,549
Total equity		31,993	35,715
Untaxed reserves	16	10,993	11,445
Provisions	27	144	184
Non-current liabilities			
Non-current interest-bearing liabilities	28	58,214	63,904
Non-current noninterest-bearing liabilities	29	2,643	2,592
Total non-current liabilities		60,857	66,496
Current liabilities			
Current interest-bearing liabilities	30	7,197	8,763
Current tax liabilities	17	-	663
Other current noninterest-bearing liabilities	31	15,714	13,565
Total current liabilities		22,911	22,991
Total equity, provisions and liabilities		126,898	136,831
Pledged assets	32	3,218	2,953
Contingent liabilities	33	118,388	107,544
Commitments under consortium agreements	34		

Parent Company Statement of Changes in Equity

Amounts in SEK million	Share capital	Statutory reserve	Non-restricted equity	Total
Balance brought forward 2006	6,585	1,286	22,559	30,430
Dividend paid to equity holders	-	-	-5,800	-5,800
Group contributions	-	-	-647	-647
Tax effect of Group contributions	-	-	181	181
Result from mergers	-	-	2	2
Profit for the year	-	-	11,549	11,549
Balance carried forward 2006	6,585	1,286	27,844	35,715
Dividend paid to equity holders	-	-	-7,500	-7,500
Group contributions	-	-	-940	-940
Tax effect of Group contributions	-	-	263	263
Profit for the year	-	-	4,455	4,455
Balance carried forward 2007	6,585	1,286	24,122	31,993

As of 31 December 2007 the registered share capital comprised 131,700,000 shares with a quota value of SEK 50 each.

Parent Company Cash Flow Statement

Amounts in SEK million, 1 January – 31 December	2007	2006
Operating activities		
Funds from operations (FFO)		
Profit for the year	4,455	11,549
Adjustments for the effect of items not included in the cash flow:		
Income tax expense	1,529	2,486
Appropriations	-452	2,071
Depreciation and amortisation	832	926
Dividend-contingent Group contributions	-1,564	-2,068
Taxes paid	-1,844	-1,437
Unrealised exchange rate effects	2,170	-1,743
Change in provisions	-40	-5
Other	-	-180
Cash flow from changes in operating assets and operating liabilities	8,421	-8,352
Cash flow from operating activities	13,507	3,247
Investing activities		
Investments in Group companies, associated companies and other shares and participations	-10	-1,045
Investments in property, plant and equipment and intangible assets: non-current	-1,103	-1,308
New share issue/shareholder contribution rendered	-	-13,140
Divestments of property, plant and equipment and intangible assets: non-current	363	93
Divestments of shares and participations	102	10,419
Cash flow from investing activities	-648	-4,981
Cash flow before financing activities	12,859	-1,734
Financing activities		
Loans	-7,256	3,584
Group contributions received	2,068	1,771
Dividend paid to equity holders	-7,500	-5,800
Cash flow from financing activities	-12,688	-445
Cash flow for the year	171	-2,179
Cash and cash equivalents		
Cash and cash equivalents at the beginning of the year	181	2,360
Cash flow for the year	171	-2,179
Cash and cash equivalents at the end of the year	352	181

Interest paid totalled SEK 3,202 million (3,040) and interest received totalled SEK 1,545 million (1,181). Dividends received totalled SEK 769 million (4,833).

NOTES TO THE PARENT COMPANY ACCOUNTS

(Amounts in SEK million unless stated otherwise.)

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Note 1 Company information

Vattenfall AB's 2007 Annual Report was approved in accordance with a decision by the Board of Directors of 13 March 2008. Vattenfall AB, which is the Parent Company in the Vattenfall Group, is a limited liability company with its registered office in Stockholm and with the address SE-162 87 Stockholm, Sweden. The balance sheet and income statement of the Parent Company will be submitted at the Annual General Meeting (AGM).

Note 2 Accounting principles

General

The Parent Company Vattenfall AB's accounts are prepared according to Swedish GAAP, i.e., in accordance with the Swedish Annual Accounts Act and recommendation RFR 2.1 – Accounting for Legal Entities, issued by the Swedish Financial Reporting Board. RFR 2.1, which will become mandatory for 2008 financial statements but has been applied prospectively. Vattenfall AB has adopted the exemption rule regarding IAS 39 according to RFR 2.1.

The accounting principles applied are stated in the applicable parts of Note 2 to the consolidated accounts with the following amendments for the Parent Company Vattenfall AB.

Financial instruments are reported at cost.

Depreciation and amortisation

As in the consolidated accounts, depreciation and amortisation are based on cost and are applied on a straight-line basis over the estimated useful life of the asset in question. In addition, certain accelerated depreciation/amortisation (the difference between depreciation/amortisation according to plan and depreciation/amortisation for tax purposes) in the Parent Company is reported under Appropriations and Untaxed reserves, respectively.

Pension provisions

Pension obligations in the Parent Company are calculated in accordance with generally accepted Swedish actuarial principles. The provision reported in the balance sheet corresponds to these pension obligations, entered net against plan assets of Vattenfall's Pension Foundation.

Income tax expense

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

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

Note 3 Exchange rates

See Note 5 to the consolidated accounts.

Note 4 Net sales

	2007	2006
Sales including excise taxes		
sale of goods (electricity, heat, etc.)	23,641	27,377
rendering of services	1,773	993
Excise taxes	-191	-2,126
Net sales	25,223	26,244
Net sales per geographic area		
	2007	2006
Nordic countries	24,372	25,473
Germany	432	639
Poland	419	132
Total	25,223	26,244
Net sales per segment		
	2007	2006
Electricity Generation	4,939	9,594
Electricity Market	17,846	14,241
Heat	2,186	2,244
Other	252	165
Total	25,223	26,244

Note 5 Intra-Group transactions

Of the Parent Company's total income from sales and total purchase costs, transactions with Group companies account for 9% (12%) of sales and 35% (41%) of purchase costs.

Note 6 Cost of products sold

Direct costs include production taxes and duties of SEK 222 million (199) and property taxes of SEK 982 million (837).

Note 7 Other operating income

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

Note 8 Other operating expenses

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

Note 9 Depreciation and amortisation

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

	2007	2006
Cost of products sold	756	736
Selling expenses	53	75
Administrative expenses	1	1
Total	810	812

Amortisation of non-current intangible assets is included in Cost of products sold above in the amount of SEK 2 million (2) and in Selling expenses in the amount of SEK 52 million (73).

Note 10 Impairment losses

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

	2007	2006
Cost of products sold	6	-
Selling expenses	-	114
Total	6	114

Impairment losses of non-current intangible assets are included above in the amount of SEK 0 million (114).

Note 11 Result from participations in Group companies

	2007	2006
Dividends	757	4,817
Impairment losses	-11	-2
Capital gains/losses on divestments	292	14
Total	1,038	4,829

Note 12 Result from participations in associated companies

Attributable to dividends from associated companies and capital losses/gains from the sale of associated companies.

Note 13 Result from other shares and participations

	2007	2006
Dividends	2	2
Impairment losses	-5	-
Capital gains/losses on divestments	-2	9
Total	-5	11

Note 14 Interest income and similar profit/loss items

	2007	2006
Interest income from subsidiaries	1,188	717
Other interest income	357	464
Foreign exchange gains	-	2,571
Total	1,545	3,752

Note 15 Interest expenses and similar profit/loss items

	2007	2006
Interest expenses to subsidiaries	3,171	3,017
Other interest expenses	31	22
Foreign exchange losses	2,844	-
Total	6,046	3,039

Note 16 Appropriations and untaxed reserves

	Balance brought forward	Provision/Dis-solution (-)	Balance carried forward
Accelerated depreciation	6,151	-107	6,044
2002 Tax allocation reserve	1,371	-1,371	-
2003 Tax allocation reserve	966	-	966
2004 Tax allocation reserve	1,295	-	1,295
2005 Tax allocation reserve	2,733	-7	2,726
2006 Tax allocation reserve	1,737	-	1,737
2007 Tax allocation reserve	2,796	-489	2,307
2008 Tax allocation reserve	-	1,522	1,522
Other untaxed reserves	-5,604	-	-5,604
Total	11,445	-452	10,993

Note 17 Income tax expense

The reported income tax expense is broken down as follows:

	2007	2006
Current tax	1,456	2,420
Deferred tax	73	66
Total	1,529	2,486

The income tax expense for the year attributable to previous years amounts to SEK 88 million (110). The tax effect of the standard tax interest on tax allocation reserves amounts to SEK 77 million (56).

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

%	2007	2006
Swedish income tax rate	28.0	28.0
Appropriations	2.3	-3.6
Tax adjustment for previous periods	-1.6	-0.7
Non-taxable income	-8.0	-9.2
Non-deductible expenses	7.1	0.7
Other	-0.1	0.2
Effective tax rate¹	27.7	15.4

Tax rate, current tax² 26.3 15.0

1) Tax expense according to the Parent Company income statement in relation to profit before appropriations and tax.

2) Tax expense according to the Parent Company income statement excluding reported deferred tax in relation to profit before appropriations and tax.

Note 18 Intangible assets: non-current

	Capitalised development costs		Goodwill		Concessions and similar rights		Renting and similar rights		Total	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
Cost										
Cost brought forward	301	237	13	13	350	344	63	61	727	655
Investments	-	64	-	-	4	6	3	3	7	73
Divestments/Disposals	-	-	-	-	-1	-	-25	-1	-26	-1
Reclassifications	-	-	-	-	-9	-	9	-	-	-
Accumulated cost carried forward	301	301	13	13	344	350	50	63	708	727
Accumulated amortisation according to plan										
Amortisation brought forward	-67	-	-13	-13	-340	-334	-40	-38	-460	-385
Amortisation for the year	-51	-67	-	-	-2	-6	-2	-2	-55	-75
Divestments/Disposals	-	-	-	-	1	-	9	-	10	-
Accumulated depreciation carried forward	-118	-67	-13	-13	-341	-340	-33	-40	-505	-460
Impairment losses										
Impairment losses brought forward	-114	-	-	-	-	-	-	-	-114	-
Impairment losses for the year	-	-114	-	-	-	-	-	-	-	-114
Accumulated impairment losses carried forward	-114	-114	-	-	-	-	-	-	-	-
Residual value according to plan carried forward	69	120	-	-	3	10	17	23	89	153
Accumulated excess amortisation	-21	-36	-	-	-1	-3	-5	-7	-27	-46
Book value	48	84	-	-	2	7	12	16	62	107

At 31 December 2007, there were no contractual commitments for the acquisition of non-current intangible assets.

Note 19 Property, plant and equipment

	Buildings and land ¹		Plant and machinery and other technical installations		Equipment tools, and fixtures and fittings		Construction in progress		Total	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
Cost										
Cost brought forward	17,066	16,612	15,498	15,112	129	166	1,360	1,224	34,053	33,114
Investments	13	-	1	-	21	11	1,064	1,235	1,099	1,246
Grants received	-	-	-	-	-	-	-3	-11	-3	-11
Transfer from construction in progress	437	458	984	630	2	-	-1,423	-1,088	-	-
Divestments/Disposals	-49	-14	-995	-237	-7	-48	-10	-	-1,061	-299
Reclassifications	-	10	16	-7	-	-	-	-	16	3
Accumulated cost carried forward	17,467	17,066	15,504	15,498	145	129	988	1,360	34,104	34,053
Accumulated depreciation according to plan										
Depreciation brought forward	-5,832	-5,603	-8,301	-7,965	-101	-133	-	-	-14,234	-13,701
Depreciation for the year	-246	-239	-501	-489	-8	-9	-	-	-755	-737
Divestments/Disposals	22	10	687	156	5	41	-	-	714	207
Reclassifications	-	-	-16	-3	-	-	-	-	-16	-3
Accumulated depreciation carried forward	-6,056	-5,832	-8,131	-8,301	-104	-101	-	-	-14,291	-14,234
Impairment losses										
Impairment losses for the year	-	-	-6	-	-	-	-	-	-6	-
Accumulated impairment losses carried forward	-	-	-6	-	-	-	-	-	-6	-
Residual value according to plan carried forward	11,411	11,234	7,367	7,197	41	28	988	1,360	19,807	19,819
Accumulated excess depreciation	-	-	-6,005	-6,077	-12	-28	-	-	-6,017	-6,105
Book value	11,411	11,234	1,362	1,120	29	-	988	1,360	13,790	13,714

1) Cost for land and buildings includes cost for land and water rights amounting to SEK 6,623 million (6,617), which are not subject to depreciation.

Tax assessment values

	2007	2006
Buildings	36,681	33,947
Land	21,610	20,743
Total	58,291	54,690

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

At 31 December 2007, there were no contractual commitments for the acquisition of property, plant and equipment.

Note 20 Participations in Group companies, associated companies and other shares and participations

	Participations in Group companies		Participations in associated companies		Other shares and participations	
	2007	2006	2007	2006	2007	2006
Balance brought forward	55,715	41,742	520	10,860	38	37
Investments/acquisitions	7	1,044	-	-	3	1
Shareholder contributions ¹	-	2	-	-	-	-
Divestments ¹	-7	-78	-	-10,340	-3	-
New share issue	-	13,139	-	-	-	-
Shareholdings merged	-46	-133	-	-	-	-
Impairment losses	-11	-1	-	-	-5	-
Balance carried forward	55,658	55,715	520	520	33	38

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

Note 21 Shares and participations

For a breakdown of the Parent Company's shares and participations in Group companies, associated companies and other shares and participations, see Notes 23–25 to the consolidated accounts.

Note 22 Receivables from Group companies, associated companies and other non-current receivables

	Receivables from Group companies		Receivables from associated companies		Other non-current receivables	
	2007	2006	2007	2006	2007	2006
Balance brought forward	5,195	4,316	392	2,183	3,433	261
New receivables	1,317	902	-	-	-	3,347
Payments received	-	-23	-30	-1,791	-1,237	-175
Balance carried forward	6,512	5,195	362	392	2,196	3,433

Note 23 Inventories

	2007	2006
Biofuels	44	62
Fossil fuels	243	242
Materials and spare parts	23	21
Other	-	445
Total	310	770

The amount of inventories recognised as an expense in 2007 amount to SEK 1,794 million (803). No impairment losses of inventories or reversal of impairment losses were recognised during the year.

Note 24 Intangible assets: current

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

	Emission allowances		Certificates	
	2007	2006	2007	2006
Balance brought forward	5	-	-	-
Purchases	1	5	-	-
Redeemed	-6	-	-	-
Reclassification from inventory	-	-	432	-
Balance carried forward	-	5	432	-

Note 25 Current receivables

	2007	2006
Accounts receivable-trade	3,289	3,255
Receivables from Group companies	30,306	39,915
Receivables from associated companies	76	1,442
Other receivables	3,581	3,015
Prepaid expenses and accrued income	2,780	2,588
Total	40,032	50,215

Age analysis of Current receivables

The collection period is normally 30 days

	2007			2006		
	Receivables gross	Receivables impaired	Receivables net	Receivables gross	Receivables impaired	Receivables net
Accounts receivable-trade						
Non due	3,143	-	3,143	2,953	-	2,953
Due 1-30 days	75	-	75	156	-	156
Due 31-90 days	22	-	22	101	-	101
Due > 90 days	83	34	49	135	90	45
Total	3,323	34	3,289	3,345	90	3,255
Receivables from group companies						
Non due	30,306	-	30,306	39,915	-	39,915
Total	30,306	-	30,306	39,915	-	39,915
Receivables from associated companies						
Non due	74	-	74	1,442	-	1,442
Due 1-30 days	2	-	2	-	-	-
Total	76	-	76	1,442	-	1,442
Other receivables						
Non due	3,570	-	3,570	3,015	-	3,015
Due 1-30 days	4	-	4	-	-	-
Due 31-90 days	7	-	7	-	-	-
Total	3,581	-	3,581	3,015	-	3,015

Note 26 Cash and cash equivalents

The Parent Company's cash and bank balances are administered by the subsidiary Vattenfall Treasury AB. Funds in the Group account amount to SEK 22,667 million (30,965) and are reported in the balance sheet as current receivables from Group companies.

The Parent Company's external cash and bank balances amount to SEK 352 million (181).

Note 27 Provisions

	2007	2006
Personnel-related provisions for non-pension purposes	144	184
Total	144	184
	2007	2006
Pension obligations ^{1,2}	2,736	2,647
Less: Plan assets	-2,736	-2,647
Total pension provisions at year-end	-	-
1) Of which, information registered by PRI	1,685	1,603
2) Of which, covered by credit insurance with FPG/PRI	2,380	2,336
The Parent Company's pension obligations are subject in their entirety to the Pension Obligations Vesting Act.		
	2007	2006
Fair value of plan assets at the beginning of the year	2,647	2,617
Return on plan assets	89	30
Fair value of plan assets at the end of the year	2,736	2,647
Plan assets consist of the following:	2007	2006
Equity securities	1,010	1,319
Debt instruments	1,311	1,072
Other	415	256
Total	2,736	2,647

Note 28 Non-current interest-bearing liabilities

Fully attributable to liabilities to Group companies in the amount of SEK 58,214 million (63,904), of which SEK 18,738 million (17,886) falls due after more than five years.

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

Note 29 Non-current noninterest – bearing liabilities

	2007	2006
Liabilities to Group companies	2,264	2,164
Other liabilities	379	428
Total	2,643	2,592

Liabilities to Group companies are mainly attributable to long-term liabilities to Forsmarks Kraftgrupp AB for power charges. For this liability there shall be, in accordance with an agreement between the co-owners, no interest payable on the debt. Of other liabilities, SEK 245 million (289) falls due after more than five years.

Note 30 Current interest-bearing liabilities

SEK 347 million (0) is attributable to the Swedish Tax account and SEK 6,850 million (8,763) is attributable to liabilities to Group companies.

Note 31 Other current noninterest-bearing liabilities

	2007	2006
Advance payments from customers	28	29
Accounts payable-trade	1,169	711
Liabilities to Group companies	12,025	11,127
Liabilities to associated companies	27	26
Other liabilities	682	607
Accrued expenses and deferred income	1,783	1,065
Total	15,714	13,565

Breakdown of accrued expenses and deferred income:

	2007	2006
Accrued personnel-related costs	143	150
Other accrued expenses	213	253
Deferred income and accrued expenses, electricity	499	599
Deferred income and accrued expenses, Group companies	901	–
Other deferred income	27	63
Total	1,783	1,065

Note 32 Pledged assets

	2007	2006
Blocked bank funds as security for trading on Nord Pool	53	40
Blocked bank funds as security for redemption of minority shares	3,165	2,913
Total	3,218	2,953

Pledged assets include a pledge of SEK 3,165 million for the possible future payment to minority shareholders for the redemption of shares in Vattenfall Europe AG. The amount has been deposited in a blocked account with a bank. Vattenfall receives a market rate of interest on this deposit. In the event the redemption process were to be broken off, Vattenfall AB would be able to recover the deposited amount.

Note 33 Contingent liabilities

	2007	2006
Guarantees		
of which:		
for Vattenfall Treasury's:		
lending to subsidiaries	27,660	23,178
lending to associated companies	–	36
lending to third parties, not Group companies or associated companies	5	–
external borrowing for subsidiaries	42,370	46,259
borrowing from Group companies	18,009	10,209
borrowing from associated companies	7,106	4,978
for lending by:		
other than Group companies	9	9
Group companies	5,295	5,504
associated companies	1	2
Swedish Nuclear Waste Fund	6,132	5,643
Contract guarantees	130	255
Other contingent liabilities	11,671	11,471
Total	118,388	107,544
Other contingent liabilities		
Compensatory and free power deliveries:		
Wholesale power deliveries		
Number of commitments	12	13
Power MW	216	223
Energy deliveries, TWh/year	0.9	0.9

SEK 110,949 million (102,406) of the Parent Company's contingent liabilities are attributable to its subsidiaries. Vattenfall AB has guaranteed Vattenfall Treasury AB's commitments.

As security for the energy trading of the subsidiary Vattenfall Europe Trading GmbH, Vattenfall AB has provided guarantees at a total value of EUR 1,172 million (713), equivalent to SEK 11,096 million (6,451). On the balance sheet date, utilised guarantees totalling EUR 188 million (280), equivalent to SEK 1,785 million (2,537), were included in the reported contingent liabilities.

As security for the subsidiaries Forsmarks Kraftgrupp AB and Ringhals AB, Vattenfall AB has made guarantee commitments for a combined value of SEK 6,132 million (5,643) to cover the risk that the existing funds in the Swedish Nuclear Waste Fund should, over time, prove to be insufficient. The reported contingent liabilities include these commitments. 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%. Starting on 1 January 2008, a new law (2006:647) applies for financing of future fees for spent nuclear fuel. Compliance with the new law will result in a substantial increase in the size of future security. For 2008 this means that the combined security for the Swedish Nuclear Waste Fund will amount to SEK 17,113 million. This amount also applies for 2009.

See also Note 44 to the consolidated accounts.

Note 34 Commitments under consortium agreements

See Note 45 to the consolidated accounts.

Note 35 Average number of employees and personnel costs

Average number employees	2007			2006		
	Men	Women	Total	Men	Women	Total
Sweden	802	283	1,085	805	285	1,090
Other countries	2	–	2	4	–	4
Total	804	283	1,087	809	285	1,094

Personnel costs	2007		2006	
	Men	Women	Men	Women
Salaries and other remuneration			646	615
Social security expenses (of which pension costs) ¹			468	465
			(202)	(212)
Total			1,114	1,080

1) SEK 9 million (8) of the pension costs are attributable to senior executives, i.e. presidents and vice presidents and former presidents and vice presidents. The Company's outstanding pension obligations attributable to these executives total SEK 64 million (51).

None of the Company directors receives any pension benefits in connection with board duties.

Salaries and other remuneration	2007			2006		
	Senior executives ¹	Other employees	Total	Senior executives ¹	Other employees	Total
Sweden	19	624	643	19	593	612
Other countries	–	3	3	–	3	3
Total²	19	627	646	19	596	615

1) Senior executives comprise board members and senior executives but also 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 1 million (1).

For benefits to senior executives at Vattenfall, see Note 46 to the consolidated accounts.

Note 36 Sickness-related absence

Sickness-related absence as a percentage of normal working hours during the year.

	Parent Company Vattenfall AB		Vattenfall Group Swedish operations	
	2007	2006	2007	2006
Total sickness-related absence	2.3	2.8	3.2	3.5
Total sickness-related absence:				
– for women	3.8	5.0	5.0	5.5
– for men	1.8	2.0	2.6	2.8
– for employees aged 29 and younger	0.7	1.4	3.3	3.1
– for employees aged 30–49 years	1.6	2.7	2.7	3.3
– for employees aged 50 and above	2.5	2.7	3.7	4.2
Percentage of sickness-related absence lasting 60 days or more	21.7	38.9	32.6	48.5

Note 37 Gender distribution among senior executives

	Women, %		Men, %	
	2007	2006	2007	2006
Gender distribution among board members	27	20	73	80
Gender distribution among other senior executives	11	11	89	89

Note 36 Leasing

Leasing expenses

Future payment commitments, as of 31 December 2007, for leasing contracts and rental contracts break down as follows:

	Financial leasing	Operating leasing
2008	1	13
2009	2	23
2010	1	20
Total	4	56

Leasing expenses for the year attributable to the Parent Company amounted to SEK 20 million (6).

Leasing revenues

Vattenfall AB owns and operates energy 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 2007, the cost of assets reported under Operating leases amounted to SEK 810 million (979). Accumulated depreciation amounted to SEK 275 million (334) and accumulated impairment losses to SEK 34 million (30).

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

	Financial leasing	Operating leasing
2008	–	2
2009	–	2
2010	–	1
2011	–	1
2013 and beyond	–	2
Total	–	8

Note 39 Auditors' fees, etc.

	2007	2006
Statutory audit		
Ernst & Young	8	8
Swedish National Audit Office	1	1
Total	9	9
Other fees		
Ernst & Young	5	6
Total	5	6

Note 40 Related party disclosures

See Note 50 to the consolidated accounts.

PROPOSED DISTRIBUTION OF PROFITS

The Annual General Meeting has at its disposal profits totalling SEK 24,122,326,236.

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

To be distributed to the shareholders, SEK	8,000,000,000
To be carried forward, SEK	16,122,326,236
	24,122,326,236

The proposed distribution is equivalent to a dividend of SEK 60.74 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 material 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 8,000,000,000, 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 60).

The Board of Directors and President's affirmation upon signing the Annual Accounts for 2007

The undersigned certify that the consolidated accounts and the Annual Report have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted for use in the European Union, and generally accepted accounting principles respectively, and give a true and fair view of the financial positions and results of the Group and the Company, and that the Administration Report of the Group and the Company give a fair review of the development of the operations, financial positions and results of the Group and the Company and describe substantial risks and uncertainties that the Group companies faces.

Stockholm, 13 March 2008

Dag Klackenborg
Chairman of the Board

Carl-Gustaf Angelin
Director

Johnny Bernhardtsson
Director

Christer Bådholm
Director

Ronny Ekwall
Director

Greta Fossum
Director

Lone Fønss Schrøder
Director

Jonas Iversen
Director

Hans-Olov Olsson
Vice Chairman of the Board

Tuija Soanjärvi
Director

Anders Sundström
Director

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 2007. 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 62-120 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 consolidated 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 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, 13 March 2008

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

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

QUARTERLY REVIEW

Amounts in SEK million	2006				2007			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Income statement items								
Net sales ¹	38,013	30,371	27,990	39,428	41,644	32,077	31,589	38,329
EBITDA ¹	16,312	9,436	8,153	10,037	15,119	9,432	8,768	12,502
Operating profit (EBIT) ¹	12,886	6,025	3,497	5,413	11,399	5,672	4,760	6,752
Operating profit (EBIT) ^{1,2}	12,632	5,888	3,479	5,449	11,321	5,655	4,745	6,776
Financial income	797	681	841	1,520	786	845	472	173
Financial expenses ¹	-1,473	-1,431	-1,377	-1,854	-1,481	-1,502	-1,718	-2,225
Profit before tax	12,210	5,275	2,961	5,079	10,704	5,015	3,514	4,700
Profit for the period	7,979	3,399	1,871	6,609	7,235	6,252	3,523	3,676
– of which, attributable to equity holders								
– of the Parent Company	7,502	3,183	1,726	6,318	6,866	5,963	3,145	3,795
– of which, attributable to minority interests	477	216	145	291	369	289	378	-119
Cash flow items								
Funds from operations (FFO)	13,281	7,240	5,625	9,527	12,206	4,932	6,002	10,909
Free cash flow	7,013	6,729	3,722	5,714	7,270	5,311	3,231	3,838
Balance sheet items								
Cash and cash equivalents and short-term investments	17,926	14,705	16,738	22,168	27,865	20,849	21,480	22,659
Equity	93,386	92,865	94,118	107,674	118,455	116,102	119,679	124,132
– of which, attributable to equity holders								
– of the Parent Company	82,722	82,430	83,480	96,589	106,898	104,145	107,403	111,709
– of which, attributable to minority interests	10,664	10,435	10,638	11,085	11,557	11,957	12,276	12,423
Interest-bearing liabilities	74,637	69,042	72,222	71,575	72,774	67,996	66,341	67,189
Net debt	56,474	54,179	55,380	49,407	44,828	46,765	44,524	43,740
Provisions	64,965	64,110	65,757	66,094	67,904	67,816	69,704	73,985
Noninterest-bearing liabilities	101,136	92,833	95,688	77,823	75,828	70,567	68,892	72,930
Net assets, weighted average value	148,512	150,875	151,247	151,155	150,657	151,986	154,194	157,252
Balance sheet total	334,124	318,850	327,785	323,166	334,961	322,481	324,616	338,236
The key ratios are presented as percentages (%) or times (x)								
Operating margin, % ¹	33.9	19.8	12.5	13.7	27.4	17.7	15.1	17.6
Operating margin, % ^{1,2}	33.2	19.4	12.4	13.8	27.2	17.6	15.0	17.7
Pre-tax profit margin, % ¹	32.1	17.4	10.6	12.9	25.7	15.6	11.1	12.3
Pre-tax profit margin, % ^{1,2}	31.5	16.9	10.5	12.9	25.5	15.6	11.1	12.3
Return on equity, % ³	24.7	24.1	23.0	19.1	17.9	19.9	20.5	17.6
Return on equity, % ^{2,3}	20.9	20.2	19.3	18.7	17.6	19.8	20.4	17.5
Return on net assets, % ^{1,3}	20.1	20.4	20.5	17.1	16.1	15.7	16.3	16.6
Return on net assets, % ^{1,2,3}	18.0	18.2	18.3	16.8	16.0	15.7	16.2	16.6
EBIT interest cover, (x) ¹	14.1	7.0	4.3	4.3	12.4	6.7	4.5	4.7
EBIT interest cover, (x) ^{1,2}	13.8	6.8	4.3	4.4	12.3	6.7	4.5	4.7
FFO interest cover, (x) ¹	15.0	8.9	7.8	7.7	13.8	6.3	6.5	8.2
FFO interest cover, net, (x) ¹	30.3	14.4	8.6	15.4	25.7	13.2	7.4	10.1
Cash flow interest cover after maintenance investments, (x)	10.3	10.2	6.9	5.6	10.6	8.4	4.7	3.9
FFO/gross debt, % ³	48.1	53.8	53.8	49.8	47.5	47.5	49.2	50.7
FFO/net debt, % ³	63.6	68.5	70.1	72.2	77.2	69.0	73.4	77.8
EBITDA/net financial items, (x) ¹	36.0	17.5	11.1	15.2	30.5	23.4	9.3	10.4
EBITDA/net financial items, (x) ^{1,2}	35.4	17.3	11.0	15.2	30.4	23.4	9.3	10.4
Equity/total assets, %	27.9	29.1	28.7	33.3	35.4	36.0	36.9	36.7
Gross debt/equity, %	79.9	74.3	76.7	66.5	61.4	58.6	55.4	54.1
Net debt/equity, %	60.5	58.3	58.8	45.9	37.8	40.3	37.2	35.2
Gross debt/gross debt plus equity, %	44.4	42.6	43.4	39.9	38.1	36.9	35.7	35.1
Net debt/net debt plus equity, %	37.7	36.8	37.0	31.5	27.5	28.7	27.1	26.1
Other information								
Investments	2,436	3,233	5,435	6,116	3,438	4,463	4,310	6,753
Electricity sales, TWh	53.4	43.9	41.6	52.2	56.4	44.9	43.4	49.1
Average number employees	31,829	31,823	32,811	32,308	32,325	32,295	32,523	32,396

1) Values prior to Q4 2007 are adjusted compared to previously published information in Vattenfall's 2007 nine month Interim Report and 2006 Annual Report. See Note 2 to the consolidated accounts, Accounting principles.

2) Excl. items affecting comparability.

3) Last 12-month values.

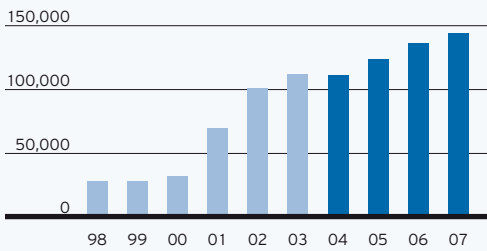
Comments

Vattenfall's earnings vary sharply during the year. Normally, the large part of annual profit is generated during the first and fourth quarters, when demand for electricity and heat is at its highest.

TEN-YEAR REVIEW

Net sales

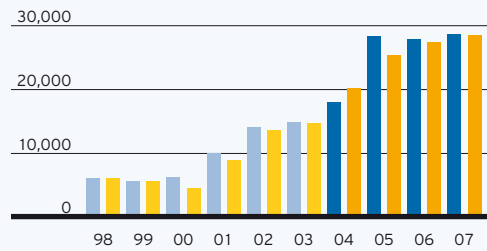
SEK million
200,000



■ Net sales (Sw.GAAP)
■ Net sales (IFRS)

Operating profit

SEK million
40,000

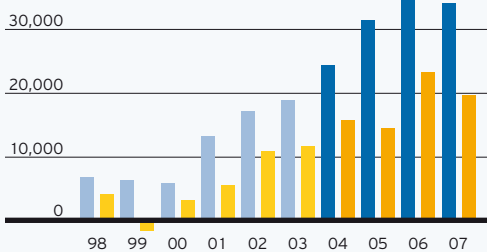


■ Operating profit (Sw.GAAP) ■ Operating profit' (Sw.GAAP)
■ Operating profit (IFRS) ■ Operating profit' (IFRS)

1) Excl. items affecting comparability.

Funds from operations (FFO) and Free cash flow

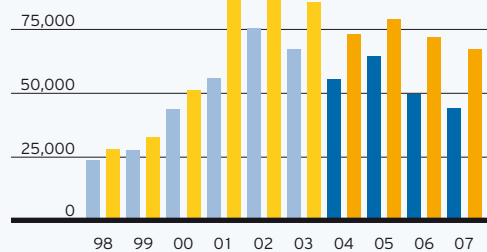
SEK million
40,000



■ Funds from operations (Sw.GAAP) ■ Free cash flow (Sw.GAAP)
■ Funds from operations (IFRS) ■ Free cash flow (IFRS)

Net debt and Interest-bearing liabilities

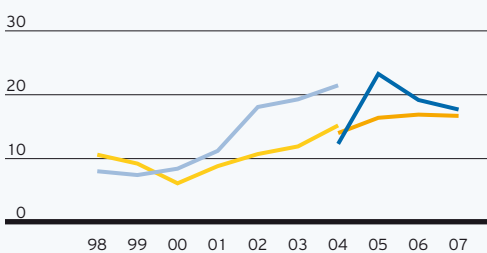
SEK million
100,000



■ Net debt (Sw.GAAP) ■ Interest-bearing liabilities (Sw.GAAP)
■ Net debt (IFRS) ■ Interest-bearing liabilities (IFRS)

Return on equity

%
40

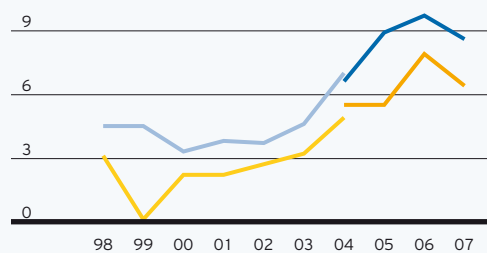


■ Return on equity (Sw.GAAP)
■ Return on equity (IFRS)
■ Return on equity' (Sw.GAAP)
■ Return on equity' (IFRS)

1) Excl. items affecting comparability.

FFO interest cover

%
12



■ FFO interest cover (Sw.GAAP)
■ FFO interest cover (IFRS)
■ Cash flow interest cover after maintenance investments (Sw.GAAP)
■ Cash flow interest cover after maintenance investments (IFRS)

Comments: The ten-year period has been characterised by strong international growth. From having been essentially a national Swedish utility, through substantial company acquisitions primarily in Germany, Poland and Denmark, Vattenfall has grown to become Europe's fifth-largest electricity generator and the largest supplier of heat. Value creation during the period has been substantial due to very successful integration and consolidation work, but also due to increased production volumes and higher wholesale electricity prices. Return on equity has increased from 7.9% to 17.6% and return on net assets has increased from 10.5% to 16.6%. The book value of assets has quadrupled, from SEK 83 billion to SEK 338 billion. Net sales and operating profit have grown five-fold.

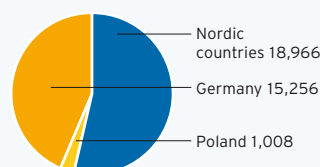
Net debt, which was SEK 23.4 billion in 1998, rose sharply to SEK 75 billion up

until 2003, due to borrowings in the bond market in order to finance the extensive acquisitions. Thereafter, net debt has been amortised down to SEK 43.7 billion as per 2007, thanks to good profitability and strong cash flows. The net debt/equity ratio has decreased to 35% from 63% in 1998, and at most from 131% in 2002.

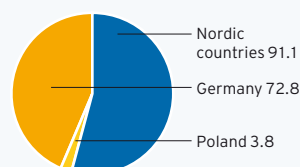
The average dividend to the owner has increased from SEK 1.5 billion in 1998 to a proposed dividend of SEK 8 billion for 2007. For this ten-year period, the average dividend payout was approximately SEK 3.6 billion per year. Investments, including acquisitions, have averaged in excess of SEK 18 billion per year, and the number of employees quadrupled during the period, from approximately 8,000 to more than 32,000. Electricity sales have risen from approximately 84 TWh to 194 TWh.

FACTS ABOUT VATTENFALL'S MARKETS

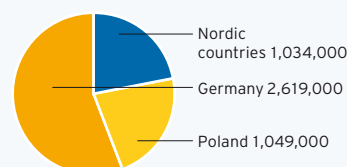
Installed capacity, electricity, MW (2007)



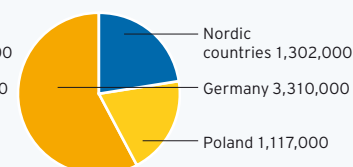
Generated electricity, TWh (2007)



Number of electricity customers (2007)



Number of network customers (2007)



	Nordic countries		Germany		Poland		Total	
	2007	2006	2007	2006	2007	2006	2007	2006
Installed capacity, electricity & heat, MW								
Hydro power	8,417	8,399	2,894	2,894	-	-	11,311	11,293
Nuclear power	6,860	6,736	771	771	-	-	7,631	7,507
Fossil-based power	2,708	2,967	11,457	11,412	978	978	15,143	15,357
Wind power	620	522	14	12	30	30	664	564
Biofuels, waste	361	261	120	132	-	-	481	393
Total electricity	18,966	18,885	15,256	15,221	1,008	1,008	35,230	35,114
Total heat	4,987	5,351	8,485	8,612	4,755	4,986	18,227	18,949
Generated electricity, TWh¹								
Hydro power	33.6	31.7	3.1	3.4	-	-	36.6	35.2
Nuclear power	48.8	49.2	2.5	6.0	-	-	51.3	55.2
Fossil-based power	7.1	3.9	66.9	66.6	3.7	3.3	77.7	73.8
Wind power	1.2	0.5	0.0	0.0	0.1	0.1	1.3	0.6
Biofuels, waste	0.4	0.4	0.3	0.2	-	-	0.6	0.6
Total electricity	91.1	85.8	72.8	76.2	3.8	3.3	167.6	165.4
Heat production, TWh¹								
Fossil-based power	6.6	3.4	14.6	14.3	10.7	11.2	31.9	28.9
Biofuels, waste	4.1	5.1	0.1	1.2	-	-	4.2	6.3
Other	-	-	-	-	-	-	-	-
Total heat	10.7	8.5	14.8	15.5	10.7	11.2	36.2	35.2
External electricity trading volume, TWh²	238	376	425	431	10	8	673	815
Number of electricity customers (Retail customers, small and medium-sized companies)								
	1,034,000	949,000	2,619,000	2,863,000	1,049,000	1,040,000	4,702,000	4,852,000
Volume, TWh								
Large electricity customers (industries, resellers, etc.)	49.0	50.2	29.9	32.9	6.4	5.6	85.3	88.7
Number of network customers								
	1,302,000	1,294,000	3,310,000	3,285,000	1,117,000	1,108,000	5,729,000	5,687,000
Electricity networks								
Transited volume, TWh	80.5 ³	81.9 ³	28.1 ⁴	27.2 ⁴	11.0 ⁵	10.4 ⁵	119.6	119.5
Transmission grid, km	-	-	10,000	10,000	-	-	10,000	10,000
Distribution network, km	187,500	187,800	77,000	77,000	26,200	26,600	290,700	291,400
Number of employees (full-year equivalents)								
Business Groups	9,489	9,158	19,656	19,821	2,740	2,836	31,885	31,815
Group total ⁶	-	-	-	-	-	-	32,396	32,308

1) Rounding differences of 0.1 TWh exist for some items. Certain values for 2006 have been adjusted compared with previously published information.

2) OTC and exchanges

3) Excl. generation transmission. Generation transmission pertains to intra-Group transmission from power plants to Vattenfall's own electricity network.

4) Excl. transmission grid.

5) To end customers.

6) There are 511 (493) employees in Energy Trading, Treasury operations, other Group Shared Services and Group staffs.

Pro rata – Generation data corresponding to Vattenfall's ownership in the respective facilities

	Nordic countries		Germany		Poland		Total	
	2007	2006	2007	2006	2007	2006	2007	2006
Installed capacity electricity & heat, MW								
Hydro power	7,961	8,155	2,894	2,894	–	–	10,855	11,049
Nuclear power	4,691	4,605	1,452	1,409	–	–	6,143	6,014
Fossil-based power	2,694	2,953	11,457	11,412	729	729	14,880	15,094
Wind power	556	457	15	12	23	23	594	492
Biofuels, waste	361	261	117	128	–	–	478	389
Total electricity	16,263	16,431	15,934	15,855	753	753	32,950	33,038
Total heat	4,847	5,211	8,506	8,567	3,548	3,647	16,901	17,425
Generated electricity, TWh¹								
Hydro power	31.3	29.8	3.1	3.4	–	–	34.4	33.2
Nuclear power	33.4	33.7	6.6	11.3	–	–	40.0	45.0
Fossil-based power	7.1	3.9	66.9	66.5	2.8	2.5	76.8	72.9
Wind power	1.2	0.5	0.0	0.0	0.1	0.0	1.3	0.5
Biofuels, waste	0.4	0.4	0.3	0.3	–	–	0.7	0.7
Total electricity	73.4	68.3	76.9	81.5	2.8	2.5	153.1	152.3
Heat production, TWh¹								
Fossil-based power	6.6	3.3	14.6	14.2	8.0	8.3	29.2	25.8
Biofuels, waste	4.0	5.0	0.1	1.2	–	–	4.1	6.2
Other	–	–	–	–	–	–	–	–
Total heat	10.6	8.3	14.6	15.4	8.0	8.3	33.2	32.0

1) Rounding differences of 0.1 TWh exist for some items. Certain values for 2006 have been adjusted compared with previously published information.

Vattenfall's electricity balance¹

Own generation, and electricity purchases		2007	2006
Hydro power	TWh	36.6	35.2
Nuclear power		51.3	55.2
Fossil-based power		77.7	73.8
Wind power		1.3	0.6
Biofuels		0.5	0.6
Waste		0.1	0.0
Total own generation		167.6	165.4
Purchased power		56.7	51.3
Spot market		0.8	5.4
Total electricity purchases		225.1	222.1
Use within the Group		12.8	11.5
Total		212.3	210.5

Comments:

The 1.3% rise in generation in 2007 is due to increased fossil-based generation, especially in the Nordic countries from the generation plants acquired in Denmark, and increased hydro power generation in the Nordic countries. Nuclear power generation decreased due to the outage at the Brunsbüttel nuclear power plant in Germany, which has been off-line since 28 June 2007. Wind power generation rose 117%, mainly due to wind power plants acquired in Denmark. Consumption within the Group pertains primarily to transmission losses within the electricity networks and consumption within the German pumped storage plants.

Sales		2007	2006
Nordic countries	TWh	55.7	56.4
Germany		85.6	71.2
Poland		13.5	11.5
Other countries		3.8	3.9
Spot market		35.2	48.1
Total electricity sales		193.8	191.1
Deliveries to minority owners		17.6	18.7
Other		1.0	0.8
Total		212.3	210.5

Comments:

The strong rise in sales in Germany is mainly attributable to the German renewable energy law (EEG). According to this law, increasing amounts of wind power volumes are fed in to Vattenfall's transmission grid, which affects the volume of both purchased power and sold power. Vattenfall invoices the power feed-in, with some time lag, to German regional electricity sales companies, among others. Hence these EEG transactions are essentially earnings-neutral over time. The volume amounts to slightly less than 30 MW in terms of both purchases and sales. Another explanation for the sales growth in Germany is the increase in bilateral sales (OTC), which also explains the decrease in sales to the spot market (the European Energy Exchange in Germany).

1) Rounding differences of 0.1 TWh exist for some items. Certain values for 2006 have been adjusted compared with previously published information.

DEFINITIONS AND CALCULATIONS OF KEY RATIOS

Figures for the Group in 2007. 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.
Free cash flow =	Cash flow from operating activities less maintenance investments.
Capital Securities =	Perpetual subordinated securities, junior to all Vattenfall's unsubordinated debt. Reported as interest-bearing non-current liabilities.
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 loans to minority owners in foreign subsidiaries, cash and cash equivalents, short-term investments.

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

Key ratios based on full year amounts 2007:

Operating margin, % =	$100 \times \frac{\text{Operating profit (EBIT)}}{\text{Net sales}}$	$\frac{28,583}{143,639} = 19.9$
Operating margin excl. items affecting comparability, % =	$100 \times \frac{\text{Operating profit (EBIT) excl. items affecting comparability}}{\text{Net sales}}$	$\frac{28,497}{143,639} = 19.8$
Pre-tax profit margin, % =	$100 \times \frac{\text{Profit before tax}}{\text{Net sales}}$	$\frac{23,933}{143,639} = 16.7$
Pre-tax profit margin excl. items affecting comparability, % =	$100 \times \frac{\text{Profit before tax excl. items affecting comparability}}{\text{Net sales}}$	$\frac{23,836}{143,639} = 16.6$
Return on equity, % =	$100 \times \frac{\text{Profit for the period attributable to equity holders of the Parent Company}}{\text{Average equity for the period attributable to equity holders of the Parent Company excl. the Reserve for cash flow hedges}}$	$\frac{19,769}{112,446} = 17.6$
Return on equity excl. items affecting comparability, % =	$100 \times \frac{\text{Profit for the period attributable to equity holders of the Parent Company excl. items affecting comparability}}{\text{Average equity for the period attributable to equity holders of the Parent Company excl. the Reserve for cash flow hedges}}$	$\frac{19,633}{112,446} = 17.5$
Return on net assets, % =	$100 \times \frac{\text{Operating profit (EBIT) + discounting effects attributable to provisions}}{\text{Weighted average of net assets for the period}}$	$\frac{26,130}{157,252} = 16.6$
Return on net assets excl. items affecting comparability, % =	$100 \times \frac{\text{Operating profit (EBIT) excl. items affecting comparability + discounting effects attributable to provisions}}{\text{Weighted average of net assets for the period}}$	$\frac{26,044}{157,252} = 16.6$

EBIT interest cover, (x) =	Operating profit (EBIT) + financial income excl. discounting effects attributable to provisions and return from the Swedish Nuclear Waste Fund	30,016	=	6.7
	Financial expenses excl. discounting effects attributable to provisions	4,473		
EBIT interest cover excl. items affecting comparability, (x) =	Operating profit (EBIT) excl. items affecting comparability + financial income excl. discounting effects attributable to provisions and return from the Swedish Nuclear Waste Fund	29,930	=	6.7
	Financial expenses excl. discounting effects attributable to provisions	4,473		
FFO interest cover, (x) =	Funds from operations (FFO) + financial expenses excl. discounting effects attributable to provisions	38,522	=	8.6
	Financial expenses excl. discounting effects attributable to provisions	4,473		
FFO interest cover, net, (x) =	Funds from operations (FFO) + net financial items excl. discounting effects attributable to provisions and return from the Swedish Nuclear Waste Fund	37,089	=	12.2
	Financial items excl. discounting effects attributable to provisions and return from the Swedish Nuclear Waste Fund	3,040		
Cash flow interest cover after maintenance investments, (x) =	Cash flow from operating activities less maintenance investments + financial expenses excl. discounting effects attributable to provisions and interest components related to pension costs	23,312	=	6.4
	Financial expenses excl. discounting effects attributable to provisions and interest components related to pension costs	3,662		
FFO/gross debt, % =	100 x $\frac{\text{Funds from operations (FFO)}}{\text{Interest-bearing liabilities}}$	34,049	=	50.7
		67,189		
FFO/net debt, % =	100 x $\frac{\text{Funds from operations (FFO)}}{\text{Net debt}}$	34,049	=	77.8
		43,740		
EBITDA/net financial items, (x) =	Operating profit before depreciation and amortisation (EBITDA)	45,821	=	15.1
	Financial items excl. discounting effects attributable to provisions and return from the Swedish Nuclear Waste Fund	3,040		
EBITDA excl. items affecting comparability/net financial items, (x) =	Operating profit before depreciation and amortisation (EBITDA) excl. items affecting comparability	45,735	=	15.0
	Financial items excl. discounting effects attributable to provisions and return from the Swedish Nuclear Waste Fund	3,040		

Key ratios based on the balance sheet per 31 December 2007:

Equity/total assets, % =	100 x $\frac{\text{Equity}}{\text{Balance sheet total}}$	124,132	=	36.7
		338,236		
Gross debt/equity, % =	100 x $\frac{\text{Interest-bearing liabilities}}{\text{Equity}}$	67,189	=	54.1
		124,132		
Net debt/equity, % =	100 x $\frac{\text{Net debt}}{\text{Equity}}$	43,740	=	35.2
		124,132		
Gross debt/gross debt plus equity, % =	100 x $\frac{\text{Interest-bearing liabilities}}{\text{Interest-bearing liabilities} + \text{equity}}$	67,189	=	35.1
		191,321		
Net debt/net debt plus equity, % =	100 x $\frac{\text{Net debt}}{\text{Net debt} + \text{equity}}$	43,740	=	26.1
		167,847		

GLOSSARY

Availability Actual electricity generation capability in relation to the maximum possible generation.

CHP Combined heat and power plant. A plant that generates heat and electricity in the same process.

CCS Carbon Capture and Storage – sequestration and storage underground of carbon dioxide that is emitted in the combustion of fossil fuels.

CO₂e Carbon dioxide equivalent. The internationally recognised measure of greenhouse gas emissions. Indicates the amount of carbon dioxide with the same climate impact of other greenhouse gases.

CSR Corporate Social Responsibility – How a company, on a voluntary basis, integrates economic, social and environmental concerns in its business activities and in contacts with its stakeholders.

Deep repository Underground facility for the final disposal of spent nuclear fuel. See also SKB's website <http://www.skb.se>.

Deregulation Abolishing monopoly rights and obligations to open up for competition. Used here as a synonym for liberalisation.

Derivative instruments Financial instruments where the value or change in value is derived from an underlying instrument. Examples of derivative instruments include options, forwards and swaps. Derivative instruments are often used in risk management.

DSO Distribution System Operator. Responsible for operating, ensuring the maintenance of and developing the distribution system in a given area (compare with TSO).

EEX European Energy Exchange, in Germany.

Electricity spot market Short-term physical trading in electricity on an exchange.

EPD Environmental Product Declaration. A system based on certified environmental declarations.

EU 27 The 27 Member States constituting the European Union following the enlargement on 1 January 2007.

Ex-ante tariff regulation The approval of tariffs prior to implementation.

Ex-post tariff regulation Tariffs are examined by the regulator after implementation, if necessary.

Forward market A market in which buyers and sellers agree on a fixed price for the future delivery of an underlying instrument, such as electricity. (See also Derivative Instruments.)

Green Certificates/electricity certificates Tradeable certificates issued for renewable energy. Called electricity certificates in Sweden.

Gross capacity The electrical power that is delivered directly from a plant's generator.

IAEA International Atomic Energy Agency – the UN's nuclear energy agency.

Installed capacity Production capacity of a plant according to design data, normally measured in megawatts (MW).

IPCC The UN's Intergovernmental Panel on Climate Change.

ISDA agreement A bilateral general agreement prepared in accordance with guidelines established by the International Swap Dealers Association. The agreement regulates the parties' legal obligations in derivative transactions with each other.

ISO 14001 International standard for environmental management systems.

Kyoto Protocol International agreement to reduce greenhouse gas emissions.

Local network An electricity network in Sweden within the 0.4–20 kV range.

Margin call Marginal security that the holder of a derivative position must pledge to cover the credit risk of its counterparty (OTC or exchange)

Merit order The order in which capacity is put into use.

Net capacity The electric power a plant delivers to connected networks, i.e., gross capacity less the plant's own electricity use.

Nord Pool The Nordic electricity exchange.

NO_x A collective term for various oxides of nitrogen.

NTPA Negotiated Third Party Access. Access to a network granted on the basis of bilateral negotiations between the network owner and the network user.

OTC Over the Counter. Trading (directly or via a broker) outside the official exchanges in physical and financial contracts.

Oxyfuel combustion Combustion of fossil fuel in pure oxygen.

POLPX The Polish electricity exchange, Towarowa Gielda Energii.

Post-combustion Separation of CO₂ after combustion.

PSE Polskie Sieci Elektroenergetyczne – Polish Power Grid Company.

Regional network An electricity network in Sweden within the 40–130 kV range.

Renewable energy sources Non-finite energy sources such as hydro power, biofuel, wind, solar power, tidal power, wave power, geothermal power.

SKB Svensk Kärnbränslehantering AB, the party responsible for managing radioactive waste in Sweden.

SO₂ Sulphur dioxide.

Spot market A market where trade is conducted with immediate delivery.

Swap A financial instrument that is a combination of spot and forward transactions, a type of financial exchange agreement.

Thermal power Electricity generated via a heating process, such as a gas turbine or a steam process in a coalfired or nuclear power plant (compare with CHP).

TSO Transmission System Operator. Responsible for operating, ensuring the maintenance of and developing the transmission system in a given area (compare with DSO).

Unbundling Legal separation of transmission and distribution from other activities of a company (generation and sales).

Value chain Process for creating value. Within the electricity sector this includes the generation, transmission, distribution, trading and selling of electricity.

Volatility A measure of how the price of a commodity varies over a particular period.

Energy terms

Units of power

Power is energy per unit of time

Power is expressed in Watts (W)

1 kW (kilowatt) = 1,000 W

1 MW (megawatt) = 1,000 kW

1 GW (gigawatt) = 1,000,000 kW

Units of energy

Energy is power multiplied by time

1 kWh (kilowatt hour) = 1 kW expended over an hour

1 MWh (megawatt hour) = 1,000 kWh

1 GWh (gigawatt hour) = 1,000,000 kWh

1 TWh (terawatt hour) = 1,000,000,000 kWh

Voltage

1 kV (kilovolt) = 1,000 volt (V)

VATTENFALL'S HISTORY



Olidan, on the Göta River, was one of the first hydro power stations built from 1909–1916 by the newly formed Swedish State Power Board.

1909 The restructuring of Trollhätte kanal- och vattenverk to Kungliga Vattenfallsstyrelsen (Swedish State Power Board) marks the birth of Vattenfall. The Swedish state had bought the water rights in Trollhättan a few years earlier and was now taking an active involvement in this emerging electricity generation technology.

1909–1916 The first large hydro power plants – Olidan, Porjus and Älvkarleby – are built.

1951 Inauguration of the Harsprånget hydro power plant, the world's largest hydro power plant in many respects. During the same year, the world's first 400 kilovolt transmission line is put in operation, stretching from northern Norrland to Hallsberg in Central Sweden.

1952 The entire Swedish national electricity grid is hooked together.

1954 Vattenfall commissions the world's first commercial high-voltage direct current line – between the mainland and the island of Gotland.

1975–1976 Vattenfall's first two nuclear reactors, Ringhals 1 and 2, are commissioned. During the 1970s and '80s, twelve reactors were built across Sweden, of which seven are owned by Vattenfall.

1992 Vattenfall is transformed from a state enterprise to the limited liability company Vattenfall AB. Responsibility for the national grid – the Swedish high-voltage network – is transferred to the newly formed state authority Svenska Kraftnät.

1995 Vattenfall's board charts out an international growth strategy for Vattenfall.

1996 The Swedish electricity market is deregulated. The electricity grid operations are legally separated from electricity generation and sales.

European expansion

1996 Vattenfall's international expansion is initiated in 1996 through the acquisition of Hämeen Sähkö, a Finnish electricity distribution company. A representative office is opened in Hamburg, and Vattenfall begins working in the German market through the joint venture company VASA Energy.

1998 The German electricity market is deregulated in April.

1999 Vattenfall agrees to acquire 25.1% of the shares in HEW from the City of Hamburg, with an option for the city to sell another 25.1% to Vattenfall. The Barsebäck 1 nuclear reactor is decommissioned following a decision by Swedish parliament.

2000 In January, 55% of the Polish heat production company EW is acquired in Warsaw, Poland. In August an agreement is signed with E.ON to acquire a majority shareholding in Berlin's energy company, Bewag. However, the deal is blocked by the US company Southern Energy (now Mirant).

2001 In February a 32% stake is acquired in the Polish distribution company GZE. In May Vattenfall becomes a majority owner in HEW through share purchases from E.ON and Sydkraft. Also in May, HEW acquires the electricity generator VEAG, which also owns the electricity grid in eastern Germany, and the lignite producer LAUBAG.

2002 In January Vattenfall acquires all of Mirant's shares in Bewag. Vattenfall's various acquisitions in Germany are gathered under the name Vattenfall Europe AG, which is formally established in August through the merger between HEW and VEAG, including LAUBAG. Vattenfall thereby becomes Germany's third-largest electricity generator.

2003 In January/February, Bewag is merged into Vattenfall Europe AG. Vattenfall increases its stake in the Polish company EW to 70% and in GZE to 54%.

2005 In April, 35.3% of the shares in the Danish company Elsam A/S are acquired. The nuclear reactor Barsebäck 2 is closed 31 May. In August, Vattenfall announces that it has gained possession of more than 95% of the shares in Vattenfall Europe AG and initiates compulsory redemption of the minority owners' shares.

2006 On 1 January the local German brands HEW and Bewag, and the Polish brands EW and GZE, are replaced with the Vattenfall brand. Vattenfall increases its ownership in both Polish companies to 75%. On 1 July a number of Danish wind power and combined heat and power assets are acquired from the Danish company DONG in exchange for ownership stakes in Elsam A/S and I/S Avedøre 2. Construction begins of a pilot Carbon Separation and Storage plant at Schwarze Pumpe.

2007 The Lillgrund wind farm, with 48 turbines, is commissioned and begins delivering electricity at the end of the year. In December the decision is made to merge Business Group Europe and Business Group Poland into the single Business Group Central Europe.

Production: Vattenfall AB and Intellecta Communication AB.

Photos: Anders Kjellberg – Flygfotot.se (cover), Bruno Ehms (p. 57),

Stefan Berg (p. 59) and Vattenfall AB.

Printing: Intellecta Tryckindustri. Copyright 2008, Vattenfall AB, Stockholm.

POWER FOR RENEWAL

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