

Klimaschutz durch Innovation  
DAS CO<sub>2</sub>-FREIE KRAFTWERK VON VATTENFALL

SIX-MONTH INTERIM REPORT 2006 JANUARY–JUNE



The groundbreaking ceremony for Vattenfall's CO<sub>2</sub>-free pilot plant to be built at the site of the Schwarze Pumpe power station in Eastern Germany.  
From the left: Klaus Rauscher, Head of Vattenfall Europe, Angela Merkel, Federal Chancellor of Germany, Matthias Platzeck, Premier of the State of Brandenburg and Lars G Josefsson, CEO of Vattenfall.  
Photo: Rainer Weißflog



- Net sales increased by 22.0% to SEK 78,502 million (64,328)
- Operating profit excluding items affecting comparability rose by 29.5% to SEK 18,132 million (14,002)
- For the second quarter, operating profit excluding items affecting comparability rose by 15.5% to SEK 5,697 million (4,933)
- Profit for the period rose by 34.1% to SEK 11,378 million (8,486)

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**Lars G Josefsson**  
President and CEO

### Continued strong financial performance, but alarming ruling by German network regulator

In the second quarter of 2006, Vattenfall has once again been able to improve its operating profit, primarily on account of strong contributions from the German generation operations. However, at the same time we are perceiving a weaker trend, mainly on account of network regulation in Germany but also because of higher taxes in the Nordic Region.

For the first six months, operating profit excluding items affecting comparability increased by 29.5% to SEK 18,132 million (14,002). Net sales increased by 22.0% to SEK 78,502 million (64,328). For the second quarter, operating profit excluding items affecting comparability rose by 15.5% to SEK 5,697 million (4,933). This is accounted for mainly by improvements in the German electricity generation and heat business. The Nordic operations – despite higher electricity prices and the share of earnings from the Danish associated company Elsam A/S – saw an unchanged operating profit due to higher taxes and reduced hydro power generation as a result of reduced access to water, along with a deterioration in the electricity sales business unit. In Poland, all business units are contributing improved earnings for the second quarter compared to the previous year.

Return on equity was 20.2%, and return on net assets was 17.7%; both figures exclude items affecting comparability. The financial position of the Group was enhanced. The debt/equity ratio improved to 0.58 times compared to 0.71 times at year-end 2005. Net debt fell by SEK 2,295 million during the second quarter to SEK 54,179 million as at 30 June 2006.

Vattenfall's total electricity generation for the second quarter fell to 37.7 TWh compared to the second quarter last year (39.4). Hydro power generation was 7.9 TWh (9.1), nuclear power generation was 13.7 TWh (14.2), and fossil-based and wind power generation was 16.2 TWh (16.1).

In June, the German network regulator, Bundesnetzagentur, decided that Vattenfall Europe Transmission GmbH has to reduce its network tariff by 17.9% from July 2006 until December 2006. It disapproved the costs for network losses, costs for balancing power in conjunction with increased feed-in of wind power, along with depreciation related to the transmission network. This is equivalent to SEK 459 million, which amount will burden operating profit. Bundesnetzagentur also demanded that the transmission tariff under the new calculatory rules had to be reduced retroactively from November 2005, although this demand was rejected in court on 21 July 2006. As far as Vattenfall distribution operations are concerned, demands for tariff reductions are expected to be made in August.

Vattenfall views the action of the German network regulator with great concern and has appealed to the court against the decision of Bundesnetzagentur. Network business is a regulated monopoly which by law must be separate, legally and in terms of business, from Vattenfall's generation and sales operations. Vattenfall has always advocated the monitoring and regulation of network tariffs by an independent network authority, but we assume that regulation models applied will provide stable, predictable rules for network operators and reasonable earnings on capital invested. If it is finally enforced, the decision of the German network regulator will lead to losses for our German transmission operation. Vattenfall has submitted all the information required to the network authority in due time. We are prepared to enter into discussion in order to reach a stable, transparent network regulation in order to provide customers with good security of supply at a reasonable cost, and also to give network operators the opportunity for reasonable financial returns.

### Volatile price trends on the electricity markets

Prices on the electricity markets have been volatile over the second quarter. When the price for CO<sub>2</sub> emission allowances fell sharply in April–May, from over EUR 30/tonne to as little as EUR 12/tonne, electricity prices followed swiftly on both the spot and forward markets. Average Nord Pool spot prices for delivery 2007 fell by more than 20%. Since then, CO<sub>2</sub> prices have risen to EUR 15–17/tonne. Electricity prices have also risen as a consequence of the unrest in the Middle East, and discussions between Russia, the EU and the USA relating to supply and demand for energy have driven up the market price of oil and gas. There is a shortage of cooling water at power plants on the Continent, while at the same time the demand for electricity is on the increase due to higher demand for air conditioning. The hydrological balance has been weakened in the Nordic Region, which is reducing hydro power generation.

### Deal closed between Vattenfall and Danish company DONG

After some intensive work, the exchange of assets between Vattenfall and the associated Danish company DONG has finally taken place. Assets in the form of power plants and wind power plants were transferred to Vattenfall as at 1 July in exchange for our shareholding in Elsam A/S and our holding in Avedøre 2. This will increase our annual generation of electricity and heat by about 6 TWh each. I would like to extend a warm welcome to Vattenfall to our new staff members in Denmark.

### Great demand for Vattenfall's new electricity contract

At present, we have just over 600 000 household customers in Sweden, equivalent to a market share of 13%. Our objective is to increase this share by further establishing Vattenfall as number one for the customer. In June, Vattenfall launched a new product in Sweden, a three-year electricity contract at a fixed price in which we offer customers the lowest electricity price on the market, while at the same time allowing them to switch to a different contract if the price of electricity falls. Consumers have responded very positively to this offer, while at the same time a large number of competing electricity supply companies have been concerned by the low price offered by Vattenfall.

### More investment to combat climate changes

On 18 May, Vattenfall launched a roadmap for increased investment in renewable electricity generation in the Nordic Region. Our ambition is to increase the annual generation of renewable energy to 10 TWh up to 2016. In the same month, work began on the construction of Vattenfall's pilot plant for a carbon dioxide-free, lignite-fired power plant, the first of its kind in the world. This pilot plant, which is being constructed at the site of the Schwarze Pumpe power plant in Eastern Germany, is a milestone in the development of a new technology for the long-term development of lignite-fired electricity generation with no carbon dioxide emissions. Vattenfall is investing EUR 50 million in this pilot plant for the CO<sub>2</sub>-free, lignite-fired power plant, which will be commissioned in 2008.

The importance of this initiative was marked by Angela Merkel, Federal Chancellor of Germany, who joined us for the groundbreaking ceremony. As a leading energy company, we take our responsibilities seriously and, with this investment, we are preparing the way for a new, CO<sub>2</sub>-free technology. Vattenfall is the first company daring to venture out of the laboratory with this. In the long term, our Clean Coal technology will allow us to ensure environmentally friendly, lignite-fired electricity generation in Germany, while at the same time making a massive contribution towards the global resolution of the climate issue.



Lars G Josefsson  
President and Chief Executive Officer

## SUMMARY OF VATTENFALL'S FINANCIAL PERFORMANCE, CASH FLOW AND BALANCE SHEET

Amounts in SEK million	Q 2			Q 1-2			Latest 12 months (LTM)
	2006	2005	Change %	2006	2005	Change %	
Net sales	<b>38,070</b>	29,292	30.0	<b>78,502</b>	64,328	22.0	143,332
Operating profit before depreciation and amortisation (EBITDA)	<b>9,245</b>	8,868	4.3	<b>25,360</b>	21,387	18.6	46,356
<b>Operating profit (EBIT)</b>	<b>5,834</b>	4,906	18.9	<b>18,523</b>	13,998	32.3	32,096
<b>Operating profit excl. items affecting comparability</b>	<b>5,697</b>	4,933	15.5	<b>18,132</b>	14,002	29.5	28,715
Financial items, net	<b>-559</b>	-783	28.6	<b>-1,038</b>	-1,373	24.4	-1,076
<b>Profit before tax</b>	<b>5,275</b>	4,123	27.9	<b>17,485</b>	12,625	38.5	31,020
<b>Profit for the period</b>	<b>3,399</b>	2,917	16.5	<b>11,378</b>	8,486	34.1	23,410
– of which attributable to equity holders of the Parent Company	<b>3,183</b>	2,793	14.0	<b>10,685</b>	7,977	33.9	21,943
– of which attributable to minority interests	<b>216</b>	124	74.2	<b>693</b>	509	36.1	1,467
Return on equity excl items affecting comparability	–	–	–	–	–	–	20.2
Return on net assets excl items affecting comparability	–	–	–	–	–	–	17.7
Funds from operations (FFO)	<b>7,240</b>	6,020	20.3	<b>20,521</b>	14,791	38.7	37,116
<b>Cash flow before financing activities</b>	<b>6,482</b>	-8,170	–	<b>13,073</b>	-2,376	–	16,177
Free cash flow	<b>6,729</b>	2,809	139.6	<b>13,742</b>	8,823	55.8	19,260
Cash and cash equivalents plus short-term investments	<b>14,705</b>	14,953	-1.7	<b>14,705</b>	14,953	-1.7	–
Balance sheet total	<b>339,287</b>	325,036	4.4	<b>339,287</b>	325,036	4.4	–
<b>Equity incl. minority interests</b>	<b>92,865</b>	82,041	13.2	<b>92,865</b>	82,041	13.2	–
Capital Securities	<b>9,074</b>	9,248	-1.9	<b>9,074</b>	9,248	-1.9	–
Other interest-bearing liabilities	<b>59,968</b>	78,110	-23.2	<b>59,968</b>	78,110	-23.2	–
<b>Net debt</b>	<b>54,179</b>	68,307	-20.7	<b>54,179</b>	68,307	-20.7	–

Vattenfall's financial performance varies considerably over the year. The greater part of the year's profit is normally generated during the first and fourth quarters when demand for electricity and heating peaks.

See pages 21-22 for definitions.

Amounts in SEK million	Q 2		
	2006	2005	Change %

### SALES, PROFIT AND CASH FLOW

Net sales	▲	<b>38,070</b>	29,292	30.0
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#### Comment:

Turnover increased as a consequence of higher electricity market prices, but also as a result of the fact that as from April 2006 all electricity generated by Vattenfall in the Nordic Region is sold on the Nordic spot market. Vattenfall's Nordic electricity sales operations – which are separate from electricity generation – therefore buy their electricity via Nord Pool. This gross trading does not affect the price level, neither does it affect operating profit.

Cost of products sold	▲	<b>29,583</b>	20,275	45.9
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#### Comment:

Costs for products sold increased compared to Quarter 2, 2005 as a consequence of higher electricity prices and the transition to gross transactions via Nord Pool for Nordic electricity generation.

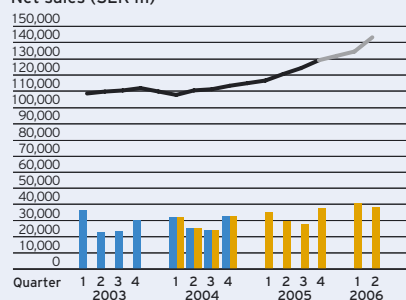
Operating profit	▲	<b>5,834</b>	4,906	18.9
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Operating profit excl items affecting comparability	▲	<b>5,697</b>	4,933	15.5
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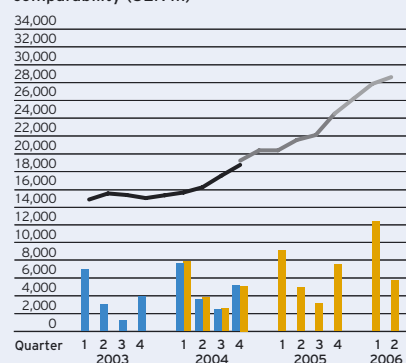
#### Comment:

The improvement in operating profit is mainly due to improvements in the German electricity generation and heat business. The Nordic operations – despite higher electricity prices and the share of earnings from the Danish associated company Elsam A/S – saw an unchanged operating profit due to higher taxes and reduced hydro power generation as a result of reduced access to water, along with a loss in the electricity sales business unit. In Poland, all business units are contributing improved earnings for the second quarter compared to the previous year. Gross margins in the Group's sales operations remain low. Amortisation for administrative systems has increased greatly, as have R&D expenses.

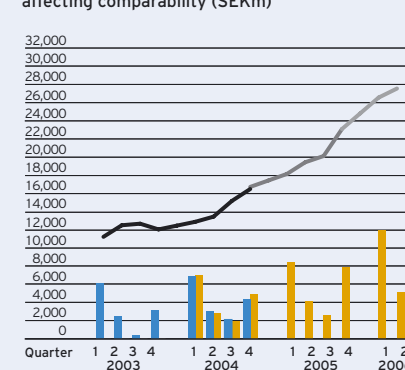
Net sales (SEK m)



Operating profit, excl items affecting comparability (SEK m)



Profit before income tax, excl. items affecting comparability (SEK m)



■ Rolling 12-month values (Sw GAAP)

■ Rolling 12-month values (IFRS)

■ Quarterly values (Sw GAAP)

■ Quarterly values (IFRS)

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Amounts in SEK million	Q 2		
	2006	2005	Change %

Cash flow from operating activities	▲	<b>9,129</b>	5,204	75.4
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Free cash flow <sup>1</sup>	▲	<b>6,729</b>	2,809	139.6
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Cash flow before financing activities	▲	<b>6,482</b>	-8,170	-
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<sup>1</sup> Cash flow from operating activities less maintenance investments.

#### Comment:

Cash flow from operating activities increased due to higher profit as well as positive changes in working capital, SEK 1,889 million (-816).

Net financial items	▲	<b>-559</b>	-783	28.6
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Interest income	▲	<b>277</b>	219	26.5
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Interest expense	▲	<b>-661</b>	-686	3.6
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Interest received	▲	<b>372</b>	132	181.8
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Interest paid	▼	<b>-1,722</b>	-864	-99.3
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#### Comment:

Net interest items for the first six months amounted to an average of SEK 154 million per month (212).

Amounts in SEK million 30 June 2006 30 June 2005 Change %

**FINANCIAL POSITION**

Cash and cash equivalents plus short-term investments	▼	14,705	14,953	-1.7
Committed credit facilities (unused)	▼	9,431	17,760	-46.9
Other credit facilities (unused)	▼	9,943	10,109	-1.6

**Comment:**

Committed credit facilities comprise a seven-year Revolving Credit Facility of EUR 1 000 million maturing in February 2013, as well as an overdraft facility of SEK 207 million.

Net debt <sup>1</sup>	▼	54,179	68,307	-20.7
Average fixed interest period (duration, years) <sup>1,2</sup>	▲	3.4	3.3	-
Average maturity <sup>1,2</sup>	▼	6.3	6.4	-

<sup>1</sup> Excluding Capital Securities of SEK 9,074 million, net debt stands at SEK 45,105 million, the average fixed interest period is 2.6 years, and the average maturity is 5.8 years. These figures refer to 30 June 2006.

<sup>2</sup> Excluding loans from associated companies and minority owners.

**Comment:**

Net debt, including Capital Securities, was reduced over the second quarter by SEK 2.3 billion to SEK 54.1 billion, primarily as a consequence of strong cash flow. Net debt fell by SEK 10.2 billion compared to year-end 2005. Total debt, including Capital Securities, decreased compared to year-end 2005, falling SEK 9.6 billion to SEK 69.0 billion. Compared to the same period last year, total debt fell by SEK 18.3 billion to SEK 87.4 billion. The average remaining maturity in the debt portfolio was down to 6.3 years. There was no change in Vattenfall's credit rating during the second quarter; the current rating is A-/A-2 from Standard & Poor's and A2/P-1 from Moody's, in both cases with a positive outlook.

Amounts in SEK million 30 June 2006 30 June 2005 Change %

**Equity attributable to**

Equity holders of the Parent Company	▲	82,430	71,398	15.5
Minority interests	▼	10,435	10,643	-2.0
Total	▲	92,865	82,041	13.2

**Comment:**

Changes in equity are specified on page 17. As a consequence of reappraisal decision from the Swedish Tax Agency, the Group's deferred tax liability has been reduced by SEK 2 443 million, with a corresponding increase in equity. For more information, see page 11.

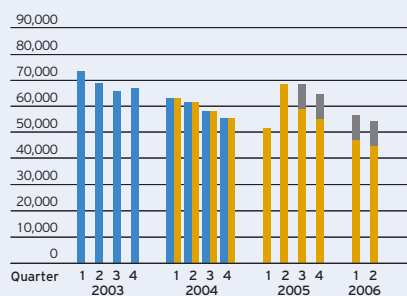
**Current assets and current liabilities**

Inventories	▲	25,777	12,927	99.4
Trade receivables and other receivables	▼	31,712	31,786	-0.2
Trade payables and other liabilities	▲	34,621	29,397	17.8
Accrued expenses and deferred income	▲	30,324	16,237	86.8

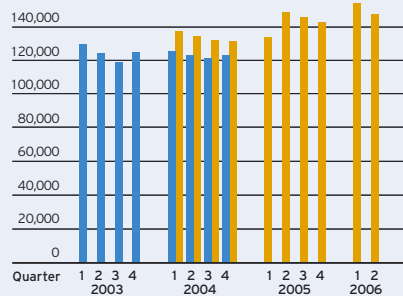
**Comment:**

Carbon dioxide emission allowances have boosted inventories and deferred income.

Net debt (SEK m)

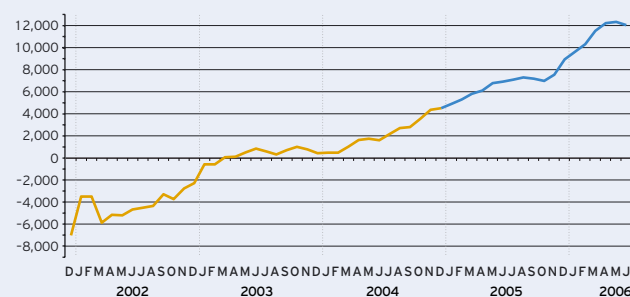


Net assets (SEK m)



Value creation (SEK m)

(Difference between results achieved and the Group's required return, 11% return on net assets)



Amounts in SEK million	Q 1-2		Change %
	2006	2005	
<b>INVESTMENTS</b>			
Maintenance investments	▲ 2,400	2,395	0.2
Growth investments	▼ 833	11,120	-92.5
– of which shares	▼ 3	10,457	-100.0
<b>Total investments</b>	▼ 3,233	13,515	-76.1

**Comment:**

The high growth investments during Quarter 2, 2005 are explained by the acquisition of shares in Danish company Elsam A/S.

	30 June 2006	30 June 2005	Change %
<b>PERSONNEL (number of employees per primary segment, FTE)</b>			
Nordic Countries	▲ 8,834	8,785	0.6
Germany	▼ 19,654	19,939	-1.4
Poland	▼ 2,853	3,073	-7.2
Others <sup>1</sup>	▲ 482	316	52.5
<b>Total</b>	▼ 31,823	32,113	-0.9

<sup>1</sup> Includes Energy Trading, Treasury Operations and other Group Shared Services as well as Group functions.

**Comment:**

The increase in the Nordic Region is explained by the extensive investment programmes for maintenance and renewal of our production plants. The increase in the Others segment is the result of the transfer of Vattenfall Utveckling AB from the Nordic unit to the Group Strategies function. The decrease in Germany and Poland is attributable to ongoing rationalisation measures. As of 1 July, some 650 people in Denmark will be transferred to Vattenfall.

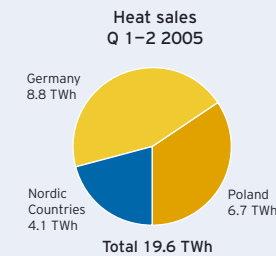
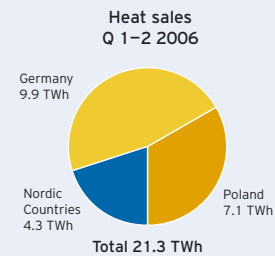
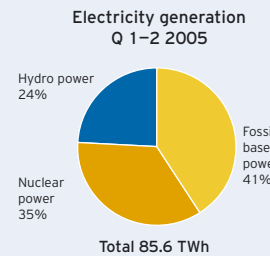
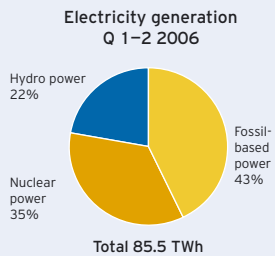
**ELECTRICITY BALANCE (TWH)**

	Q 1-2	
	2006	2005
<b>Sale</b>		
Nordic Countries	29.1	30.9
Germany	34.8	41.0
Poland	5.2	6.9
Other countries	1.9	3.1
Spot market	39.2	20.2
<b>Total electricity sales</b>	<b>110.2</b>	102.1
Delivered to minority owners	10.2	9.9
Other	0.4	0.5
<b>Total</b>	<b>120.8</b>	112.5

	Q 2	
	2006	2005
<b>Sale</b>		
Nordic Countries	12.5	14.1
Germany	18.4	18.6
Poland	2.2	2.9
Other countries	0.8	1.3
Spot market	24.7	9.8
<b>Total electricity sales</b>	<b>58.6</b>	46.7
Delivered to minority owners	4.7	4.7
Other	0.2	0.3
<b>Total</b>	<b>63.5</b>	51.7

	Q 1-2	
	2006	2005
<b>Internal generation and electricity input</b>		
Hydro power	18.9	20.2
Nuclear power	29.8	30.3
Fossil fuels and other	36.8	35.1
<b>Total internal generation</b>	<b>85.5</b>	85.6
Purchased power	24.5	29.6
Spot market	16.8	3.5
<b>Total electricity input</b>	<b>126.8</b>	118.7
Consumption within The Group	-6.0	-6.2
<b>Total</b>	<b>120.8</b>	112.5

	Q 2	
	2006	2005
<b>Internal generation and electricity input</b>		
Hydro power	7.9	9.1
Nuclear power	13.7	14.2
Fossil fuels and other	16.2	16.1
<b>Total internal generation</b>	<b>37.7</b>	39.4
Purchased power	14.7	13.5
Spot market	13.5	1.6
<b>Total electricity input</b>	<b>65.9</b>	54.5
Consumption within The Group	-2.5	-2.8
<b>Total</b>	<b>63.5</b>	51.7



## SEGMENTS

Amounts in SEK million	Q 2			Q 1-2			Full year 2005	Latest 12 months	
	2006	2005	Change %	2006	2005	Change %			
<b>NORDIC COUNTRIES</b>									
Sales	▲	15,060	9,992	50.7	29,319	21,911	33.8	42,021	49,429
Operating profit	▶	2,573	2,572	0.0	8,400	7,244	16.0	16,794	17,950
Operating profit excl items affecting comparability	▲	2,572	2,568	0.2	8,378	7,218	16.1	13,704	14,864
Heat generation (TWh)	▲	1.4	1.3	7.7	4.3	4.1	4.9	7.3	7.5
Electricity generation (TWh) <sup>1</sup>	▼	19.8	20.8	-4.8	44.7	45.9 <sup>3</sup>	-2.6	89.8	88.6
– of which hydro power	▼	7.1	8.3	-14.5	17.2	18.6	-7.5	36.4	35.0
– of which nuclear power	▲	12.7	12.5	1.6	27.2	27.0	0.7	52.9	53.1
– other	▶	0.0 <sup>3</sup>	0.0 <sup>3</sup>	0.0	0.3	0.3	0.0	0.5	0.5
Transmission volume (TWh) <sup>2</sup>	▲	18.9	18.8	0.5	44.0	42.4	3.8	83.5	85.1

<sup>1</sup> Of electricity generation, Vattenfall utilises 20 TWh (20) and the rest is used by minority owners.

<sup>2</sup> Excl production transmission.

<sup>3</sup> Rounding.

### Sales and earnings trend in Quarter 2

The significant increase in turnover is due to higher electricity market prices, but is also a result of the fact that all the electricity generated by Vattenfall in the Nordic Region as from April 2006, is sold directly on the Nordic spot market. Vattenfall's Nordic electricity sales operations – which are separate from electricity generation – buy their electricity via Nord Pool. This gross trading does not affect the price level, neither does it affect operating profit.

The operating profit was unchanged – despite higher electricity prices and the share of earnings from the associated Danish company Elsam A/S – which is explained mainly by higher taxes, reduced hydro power generation as a result of reduced access to water, and a loss in the electricity sales division. The Electricity Generation business unit is responsible for almost 90% of the total operating profit for the Nordic Region. The Electricity Sales business unit is seeing a severe deterioration as a consequence of squeezed margins and the costs involved with the implementation of a new business management system. The Electricity Distribution, Heat and Services business units also saw a slight decrease in operating profits. Higher property tax on hydro power assets and tax on installed nuclear

power capacity had an adverse impact of SEK 457 million on profit compared to Quarter 2, 2005.

Total electricity generation was 1 TWh lower. Hydro power was 1.2 TWh lower as a consequence of reduced access to water, while nuclear power was 0.2 TWh higher, thanks to very good plant availability. Heat generation was slightly higher.

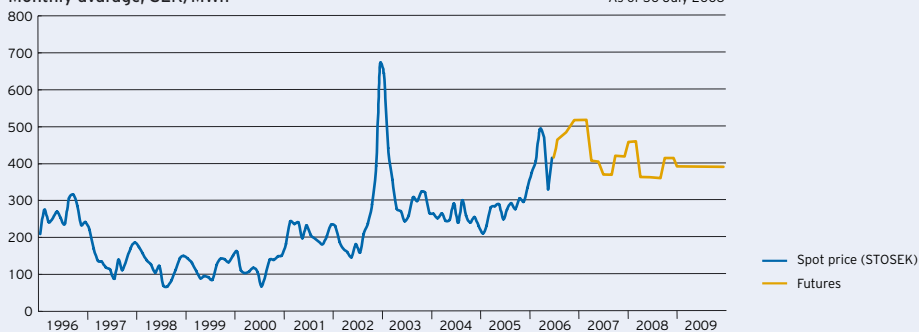
### Market trend

Electricity prices were volatile during the second quarter. Average spot prices on Nord Pool (EURSYS) were 52% up on last year during the second quarter; EUR 44.47/MWh compared to EUR 29.30/MWh. This increase is explained mainly by a weaker hydrological balance and high raw material prices. Forward prices are also high compared to last year. Forward prices for 2007 and 2008 closed at EUR 46.95/MWh and EUR 43.70/MWh respectively on 30 June, compared to the closing prices in December 2005 that were EUR 36.74/MWh and EUR 35.2/MWh respectively.

The hydrological balance showed a considerable deficit throughout the second quarter. At the end of June the deficit stood at -26.2 TWh, as opposed to a surplus of about 2.9 TWh at the same time last year.

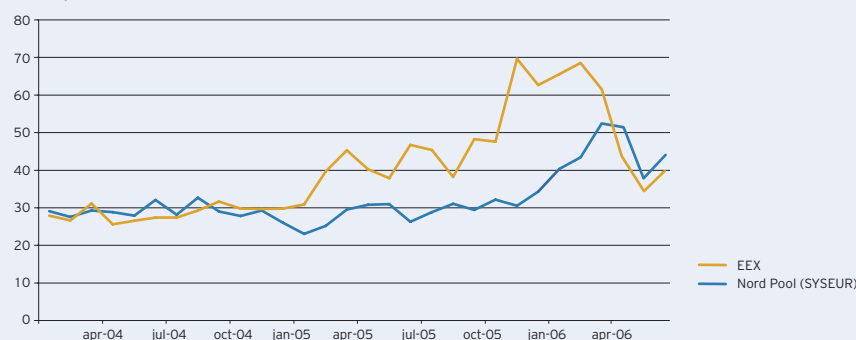
Swedish electricity prices 1996–2009  
Monthly average, SEK/MWh

Source: Nord Pool  
As of 30 July 2006



German and Nordic electricity spot prices  
Average month EUR/MWh

Source: Nord Pool and  
European Energy Exchange (EEX)



Amounts in SEK million	Q 2			Q 1-2			Full year 2005	Latest 12 months
	2006	2005	Change %	2006	2005	Change %		
<b>GERMANY</b>								
Sales	▲ 25,111	23,320	7.7	56,287	51,680	8.9	104,995	109,602
Operating profit	▼ 3,221	2,271	41.8	9,558	6,475	47.6	10,113	13,196
Operating profit excl items affecting comparability	▼ 3,079	2,295	34.2	9,328	6,497	43.6	10,251	13,082
Heat generation (TWh)	▲ 2.6	2.4	8.3	9.9	8.8	12.5	15.4	16.5
Electricity generation (TWh)	▼ 17.5	18.0	-2.8	38.9	37.8	2.9	75.9	77.0
- of which fossil fuel power	▲ 15.7	15.5	1.3	34.5	32.9	4.9	66.4	68.0
- of which nuclear power	▼ 1.0	1.7	-41.2	2.7	3.3	-18.2	6.0	5.4
- of which hydro power	▶ 0.8	0.8	0.0	1.7	1.6	6.2	3.5	3.6
Transmission volume	▼ 6.6	6.7	-1.5	13.7	14.1	-2.8	28.2	27.8

**Sales and earnings trend in Quarter 2**

Turnover was up by 7.7%, which was due mainly to higher price levels. Operating profit rose by 41.8%, excluding items affecting comparability by 34.2%, mainly as a consequence of strong contributions from the business units Mining Operations & Electricity Generation and Heat. Sales also saw good results, with a strong improvement compared to the same time last year. However, the financial performance of network operations Transmission and Distribution was poorer. Currency effects have had no material impact. Electricity generation was down 0.5 TWh, while heat generation was up 0.2 TWh.

In June, the German network regulator, Bundesnetzagentur, decided that Vattenfall Europe Transmission GmbH has to reduce its network tariff by 17.9% from July 2006 until December 2006. It disapproved, i a costs for network losses, costs for balancing power in conjunction with increased feed in of wind power, along with depreciation related to the transmission network. This is equivalent to SEK 459 million, which amount will burden operating profit. Bundesnetzagentur also demanded that the transmission tariff under the new calculatory rules had to be reduced retroactively from November 2005, although this demand was rejected in court in a temporary relief decision 24 July 2006.

As far as Vattenfall distribution operations are concerned, demands for tariff reductions are expected to be made in August. Vattenfall has appealed to the court against the decision of Bundesnetzagentur.

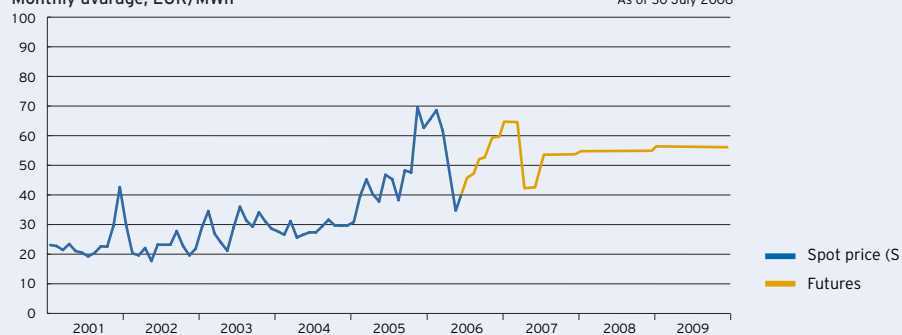
**Market trend**

Average spot prices on the German exchange EEX for the second quarter were slightly lower compared to last year; EUR 39.00/MWh compared to EUR 41.56/MWh. Favourable wind and water conditions and low consumption kept prices down. An excess of allocation of emission allowances meant that the price of CO<sub>2</sub> fell significantly in April and reinforced a downward price trend. At the end of the period, prices began to rise again as a consequence of the heat, which resulted in an increase in demand for air conditioning.

The closing price for 2007 and 2008 was EUR 53.32/MWh and EUR 41.4/MWh respectively on 30 June, compared to December 2005 (EUR 48.9/MWh and EUR 48.9/MWh respectively). The lower prices probably symbolise adaptation to new forecasts of lower CO<sub>2</sub> prices when additional players enter the market.

German electricity prices 2001–2009  
Monthly average, EUR/MWh

Source: European Energy Exchange (EEX)  
As of 30 July 2006



German and Nordic electricity futures prices  
EUR/MWh

Source: Nord Pool and European Energy Exchange (EEX)



Exchange rates, see page 22

## SEGMENTS

Amounts in SEK million	Q 2			Q 1-2			Full year 2005	Latest 12 months	
	2006	2005	Change %	2006	2005	Change %			
<b>POLAND</b>									
Sales	▲	1,960	1,839	6.6	4,922	4,363	12.8	8,850	9,409
Operating profit	▲	177	142	24.6	921	517	78.1	842	1,246
Operating profit excl items affecting comparability	▲	183	149	22.8	782	525	49.0	808	1,065
Heat generation (TWh)	▼	1.5	1.7	-11.8	7.1	6.7	6.0	11.4	11.8
Electricity generation (TWh) <sup>1</sup>	▼	0.5	0.6	-16.7	2.0	1.9	5.3	3.4	3.5

<sup>1</sup> 100% fossil fuel power.

### Sales and earnings trend in Quarter 2

Polish operations continued to develop well over the second quarter. Compared to the same time last year, sales have increased by 6.6%, 5% of which is due to currency effects. Operating profit was up by almost 25%, a slightly lower increase in local currency. As of 2006, our Polish operations are divided into three business units: Heat, Sales and Distribution. Annually, Heat is responsible for most of the operating profit, some 70%, while Distribution is responsible for around 30%. The Sales unit is continuing to demonstrate low profitability. During Quarter 2, when heat generation was lower on account of the season, Distribution was responsible for most of the operating profit. Streamlining of operations, more beneficial tariffs and a reduction in "electricity theft" (illegal connection to the electricity network) all helped Distribution to

increase its operating profit by almost 20%. Profits were also up for Heat and Sales compared to 2006.

Both heat generation and electricity generation were lower during Quarter 2, 2006 compared to last year. This is due mainly to warmer weather.

### Market trend

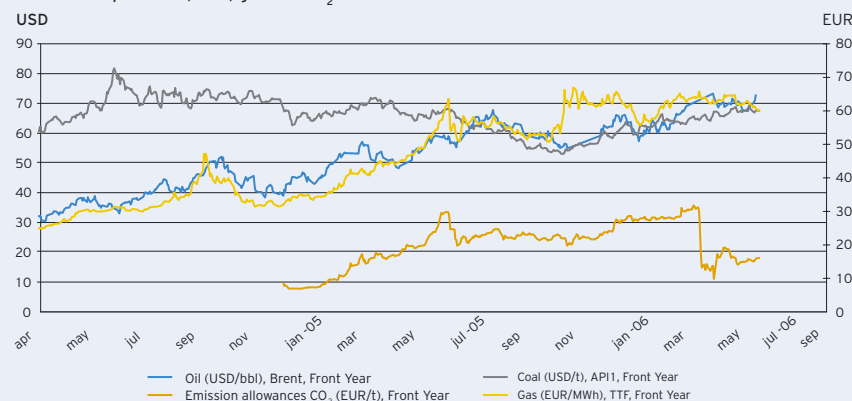
Sales on the Polish electricity exchange, especially in the futures market, are still very low compared to Nord Pool and EEX. Average spot prices on the Polish exchange POLPX for the second quarter rose by 1.7% compared to last year; PLN 117/MWh compared to PLN 115/MWh.

Polish electricity prices 2001–2006  
Average Month PLN/MWh

Source: Gielda Energii SA  
As of 3 July 2006



Price development oil, coal, gas and CO<sub>2</sub> emissions



Oil prices were driven up by political unrest in Iran and Nigeria. Gas prices followed as many long-term gas contracts are indexed to the oil price. The prices of CO<sub>2</sub> emissions allowances is somewhat lower than last year. After having reached 30 EUR at the end of April, CO<sub>2</sub> prices dropped dramatically as actual emissions were lower than forecasted. Coal prices are more or less at the same level as last year.

## THE PARENT COMPANY

The accounts of the parent company Vattenfall AB are prepared according to Swedish GAAP, i.e. to comply with the Swedish Annual Accounts Act and Recommendation RR 32:05 on accounting for legal entities of the Swedish Financial Accounting Standards Council.

Shares in subsidiaries are valued at cost. Other financial instruments are stated using the accounting principles that apply to the Group. Comparative figures for 2005 have been restated.

Sales amounted to SEK 22,001 million (13,509). This increase is due to higher price levels, but is also a result of the fact that all the electricity which Vattenfall generates in the Nordic Region has been sold directly on the Nordic spot market since April 2006. Vattenfall's Nordic electricity sales operations – which are separate from electricity generation in business terms – buy their electricity over Nord Pool. This gross trading does not affect the price level, neither does it affect operating profit.

Profit before appropriations and tax was SEK 10,758 million (2,327). This increase is explained by dividend received from Ringhals AB regarding the compensation for Barsebäck 2 of around SEK 4.1 million, and around SEK 3.8 billion in respect of foreign exchange forwards for hedging net investments in foreign subsidiaries. Investments over the period amounted to SEK 2,558 million (11,661). Cash and cash equivalents totalled SEK 130 million (2,913). Funds in Group

accounts managed by Vattenfall Treasury AB amounted to SEK 29,225 million (20,915).

## THE GROUP

### Reappraisal decision from the Swedish Tax Agency

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

### Elsam, Denmark

Vattenfall's 35.3% shareholding in the Danish energy company Elsam A/S is reported using the equity method. According to the agreement in principle entered into with the majority shareholder DONG A/S, Vattenfall is to exchange the shares for generation capacity in Elsam and Energi E2 A/S. As con-

ractively agreed between Vattenfall and DONG, assets, liabilities and staff etc. were transferred on 1 July 2006.

## ACCOUNTING PRINCIPLES

As of 1 January 2005, the Vattenfall Group has applied international accounting standards – International Financial Reporting Standards (IFRS), formerly IAS – as adopted by the EU Commission for application within the EU.

This consolidated interim report has been prepared according to IAS 34 – Interim Financial Reporting, which meets the requirements set in Recommendation RR 31 on interim reports for groups of the Swedish Financial Accounting Standards Council.

The accounting principles applied are those described in Vattenfall's annual report for 2005 (notes 2 and 3 to the consolidated accounts), apart from the fact that in the Group's income statement, the Group's participations in associated companies' profit after tax and minority interests, adjusted for any depreciation, amortisation or utilisation of acquired overvalues and undervalues will be reported as of 2006 as "Participations in the results of associated companies". The Group's share of associated companies' reported tax expense was previously reported as part of the Group's tax expense. All periods prior to 2006 have been restated to comply with this new principle.

An average of equity over the period will be applied from this interim report onwards when calculating the key ratio

Return on equity. The same key ratio has been based on the equity brought forward up to this point. All periods prior to Quarter 2, 2006 have been restated to comply with this new principle.

Stockholm, 27 July 2006

Lars G Josefsson  
President and CEO

## VATTENFALL'S FINANCIAL REPORTS IN 2006

Nine-month report, as of 30 September  
Tuesday 31 October

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## INCOME STATEMENT

### INCOME STATEMENT

Amounts in SEK million	Q 2		Q 1-2		Full year 2005	Latest 12 months (LTM)
	2006	2005	2006	2005		
Net sales	38,070	29,292	78,502	64,328	129,158	143,332
Cost of products sold <sup>1</sup>	-29,583	-20,275	-55,342	-45,190	-93,636	-103,788
<b>Gross profit</b>	<b>8,487</b>	9,017	<b>23,160</b>	19,138	35,522	39,544
Selling expenses, administrative expenses and research and development costs <sup>2</sup>	-3,138	-2,867	-6,178	-5,582	-13,134	-13,730
Other operating income and expenses, net	175	-1,251	574	309	4,649	4,914
Participations in the results of associated companies	310	7 <sup>8</sup>	967	133 <sup>8</sup>	534 <sup>8</sup>	1,368
<b>Operating profit (EBIT) <sup>3</sup></b>	<b>5,834</b>	4,906 <sup>8</sup>	<b>18,523</b>	13,998 <sup>8</sup>	27,571 <sup>8</sup>	32,096
Financial income <sup>4</sup>	681	592	1,478	1,136	3,810	4,152
Financial expenses <sup>5</sup>	-1,240	-1,375	-2,516	-2,509	-5,221	-5,228
<b>Profit before tax <sup>6</sup></b>	<b>5,275</b>	4,123 <sup>8</sup>	<b>17,485</b>	12,625 <sup>8</sup>	26,160 <sup>8</sup>	31,020
Income tax expense	-1,876	-1,206 <sup>8</sup>	-6,107	-4,139 <sup>8</sup>	-5,642 <sup>8</sup>	-7,610
<b>Profit for the period <sup>7</sup></b>	<b>3,399</b>	2,917	<b>11,378</b>	8,486	20,518	23,410
<b>Attributable to</b>						
Equity holders of the Parent Company	3,183	2,793	10,685	7,977	19,235	21,943
Minority interests	216	124	693	509	1,283	1,467
<b>Total</b>	<b>3,399</b>	2,917	<b>11,378</b>	8,486	20,518	23,410
<b>Earnings per share</b>						
Number of shares in Vattenfall AB, thousands	131,700	131,700	131,700	131,700	131,700	131,700
Earnings per share (SEK)	24.17	21.21	81.13	60.57	146.05	166.61
<b>Additional information</b>						
Operating profit before depreciation and amortisation (EBITDA)	9,245	8,868 <sup>8</sup>	25,360	21,387 <sup>8</sup>	42,383 <sup>8</sup>	46,356
Financial items, net excl discounting effects attributable to provisions and return on the Swedish Nuclear Waste Fund	-348	-559	-604	-942	-1,440	-1,103
<sup>1</sup> Of which depreciation, amortisation and impairment losses	-3,260	-3,869	-6,551	-7,187	-14,290	-13,654
<sup>2</sup> Of which depreciation, amortisation and impairment losses	-151	-93	-286	-202	-522	-606
<sup>3</sup> Including items affecting comparability attributable to:						
- capital gains/losses	137	-27	391	-4	-71	324
- closure of Barsebäck 2	-	-	-	-	3,057	3,057
<sup>4</sup> Including returns from the Swedish Nuclear Waste Fund	300	312	600	625	2,089	2,064
<sup>5</sup> Including discounting effects attributable to provisions excl of pension provisions	-511	-536	-1,034	-1,057	-2,060	-2,037
<sup>6</sup> Including items affecting comparability attributable to:						
- capital gains/losses	137	-18	390	-4	-63	323
- closure of Barsebäck 2	-	-	-	-	3,057	3,057
<sup>7</sup> Including items affecting comparability stated above adjusted for tax	144	-10	329	5	3,154	3,478

<sup>8</sup> These values are adjusted compared to previously published information in Vattenfall's six-month interim report for 2005 and annual report for 2005. See page 11 under the heading Accounting Principles.

## PRIMARY SEGMENTS

Amounts in SEK million	Net sales					Operating profit (EBIT)					Operating profit (EBIT) excl items affecting comparability				
	Q 2		Q 1-2		Full year	Q 2		Q 1-2		Full year	Q 2		Q 1-2		Full year
	2006	2005 <sup>3</sup>	2006	2005 <sup>3</sup>	2005	2006	2005 <sup>4</sup>	2006	2005 <sup>4</sup>	2005 <sup>4</sup>	2006	2005 <sup>4</sup>	2006	2005 <sup>4</sup>	2005 <sup>4</sup>
Nordic Countries	15,060	9,992	29,319	21,911	42,021	2,573	2,572	8,400	7,244	16,794	2,572	2,568	8,378	7,218	13,704
Germany	25,511	23,320	56,287	51,680	104,995	3,221	2,271	9,558	6,475	10,113	3,079	2,295	9,328	6,497	10,251
Poland	1,960	1,839	4,922	4,363	8,850	177	142	921	517	842	183	149	782	525	808
Other <sup>1</sup>	14,283	12,099	31,573	24,633	44,563	-137	-79	-356	-238	-178	-137	-79	-356	-238	-178
Eliminations <sup>2</sup>	-18,744	-17,958	-43,599	-38,259	-71,271	-	-	-	-	-	-	-	-	-	-
<b>Total</b>	<b>38,070</b>	<b>29,292</b>	<b>78,502</b>	<b>64,328</b>	<b>129,158</b>	<b>5,834</b>	<b>4,906</b>	<b>18,523</b>	<b>13,998</b>	<b>27,571</b>	<b>5,697</b>	<b>4,933</b>	<b>18,132</b>	<b>14,002</b>	<b>24,585</b>

<sup>1</sup> Includes Energy Trading activities, Treasury operations and Other Group functions. Operating profit 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.

<sup>2</sup> Chiefly concerns trade between the Nordic countries and Germany and Energy Trading activities in the segment Other.

<sup>3</sup> Net sales for the Germany segment plus Eliminations have been adjusted compared to what was published in Vattenfall's six-month interim report for 2005.

<sup>4</sup> Certain values are adjusted compared to previously published information in Vattenfall's six-month interim report for 2005 and annual report for 2005. See page 11 under the heading Accounting Principles.

## SECONDARY SEGMENTS

Amounts in SEK million	Net sales					Operating profit (EBIT)					Operating profit (EBIT) excl items affecting comparability				
	Q 2		Q 1-2		Full year	Q 2		Q 1-2		Full year	Q 2		Q 1-2		Full year
	2006	2005	2006	2005	2005	2006	2005 <sup>3</sup>	2006	2005 <sup>3</sup>	2005 <sup>3</sup>	2006	2005 <sup>3</sup>	2006	2005 <sup>3</sup>	2005 <sup>3</sup>
Electricity Generation	16,532	13,576	37,015	27,721	57,414	3,788	3,281	11,281	8,507	19,751	3,807	3,286	11,297	8,509	16,742
Electricity Markets <sup>1</sup>	22,008	16,780	47,328	34,258	73,262	220	215	228	582	1,172	78	215	79	581	1,171
Electricity Networks	11,260	10,890	25,553	26,199	50,813	1,223	1,306	3,760	3,404	5,288	1,229	1,289	3,750	3,383	5,373
Heat	4,603	4,136	12,843	10,645	20,925	791	592	3,255	2,399	3,494	796	598	3,355	2,401	3,540
Other	1,798	1,910	3,282	3,270	7,278	-188	-488	-1	-894	-2,134	-213	-455	-349	-872	-2,241
Eliminations <sup>2</sup>	-18,131	-18,000	-47,519	-37,765	-80,534	-	-	-	-	-	-	-	-	-	-
<b>Total</b>	<b>38,070</b>	<b>29,292</b>	<b>78,502</b>	<b>64,328</b>	<b>129,158</b>	<b>5,834</b>	<b>4,906</b>	<b>18,523</b>	<b>13,998</b>	<b>27,571</b>	<b>5,697</b>	<b>4,933</b>	<b>18,132</b>	<b>14,002</b>	<b>24,585</b>

<sup>1</sup> Includes Sales and Energy Trading activities. Operating profit includes changes in market values for electricity trading. These are reported in Energy Trading until the amounts are realised. When the amounts are realised the segment Electricity Generation is the main segment affected.

<sup>2</sup> Chiefly concerns trade between Electricity Generation, Electricity Markets and Electricity Networks.

<sup>3</sup> Certain values are adjusted compared to previously published information in Vattenfall's six-month interim report for 2005 and annual report for 2005. See page 11 under the heading Accounting Principles.

## BALANCE SHEET

### BALANCE SHEET

Amounts in SEK million	2006	30 June 2005 <sup>1</sup>	31 December 2005
<b>Assets</b>			
<b>Non-current assets</b>			
Intangible assets	4,958	5,295	5,267
Property, plant and equipment	184,859	185,681	189,016
Other non-current assets	69,508	69,254	65,681
<b>Total non-current assets</b>	<b>259,325</b>	260,230	259,964
<b>Current assets</b>			
Inventories	25,777	12,927	12,667
Trade receivables and other receivables	31,712	31,786	37,947
Prepaid expenses and accrued income	5,921	3,355	4,459
Current tax assets	1,847	1,785	1,310
Short-term investments	7,628	9,300	8,025
Cash and cash equivalents	7,077	5,653	6,049
<b>Total current assets</b>	<b>79,962</b>	64,806	70,457
<b>Total assets</b>	<b>339,287</b>	325,036	330,421
<b>Equity and liabilities</b>			
<b>Equity</b>			
Attributable to equity holders of the Parent Company	82,430	71,398	80,565 <sup>2</sup>
Attributable to minority interests	10,435	10,643	10,344
<b>Total equity</b>	<b>92,865</b>	82,041	90,909 <sup>2</sup>
<b>Non-current liabilities</b>			
Capital Securities	9,074	9,248	9,268
Other interest-bearing liabilities	52,635	67,376	59,865
Interest-bearing provisions	42,636	40,946	42,976
Pension provisions	17,211	17,337	17,432
Deferred tax liabilities	39,202	41,784	39,927 <sup>2</sup>
Other non-interest-bearing liabilities	2,390	2,134	2,425
<b>Total non-current liabilities</b>	<b>163,148</b>	178,825	171,893 <sup>2</sup>
<b>Current liabilities</b>			
Trade payables and other liabilities	34,621	29,397	33,906
Accrued expenses and deferred income	30,324	16,237	17,393
Current tax liabilities	6,733	2,961	2,075
Interest-bearing liabilities	7,333	10,734	9,530
Interest-bearing provisions	4,263	4,841	4,715
<b>Total current liabilities</b>	<b>83,274</b>	64,170	67,619
<b>Total equity and liabilities</b>	<b>339,287</b>	325,036	330,421
Pledged assets	3,007	3,110	2,254
Contingent liabilities	23,245	16,078	16,371

<sup>1</sup> Certain values are adjusted compared to previously published information in Vattenfall's six-month interim report for 2005.

<sup>2</sup> These values are adjusted compared to previously published information in Vattenfall's annual report for 2005. See page 11 under the heading Reappraisal decision from the Swedish Tax Agency.

## ADDITIONAL INFORMATION

## Net assets

Amounts in SEK million	30 June		31 December
	2006	2005 <sup>2</sup>	2005
Nordic Countries	76,180	67,926	77,190
Germany	66,147	70,447	68,717
Poland	8,342	8,597	9,295
Other <sup>1</sup>	258	1,309	-2,034
Eliminations	-3,544	667	2,069
<b>Total net assets on balance sheet date</b>	<b>147,383</b>	148,946	155,237
<b>Net assets, weighted average value</b>	<b>150,875</b>	134,767	143,001

<sup>1</sup> Includes Energy Trading activities, Treasury operations and Other Group functions.

<sup>2</sup> Certain values are adjusted compared to previously published information in Vattenfall's six-month interim report for 2005.

## Net debt

Amounts in SEK million	30 June		31 December
	2006	2005	2005
Capital Securities	-9,074	-9,248	-9,268
Other interest-bearing liabilities <sup>1</sup>	-59,968	-78,110	-69,395
Cash and cash equivalents	7,077	5,653	6,049
Short-term investments	7,628	9,300	8,025
Loans to minority owners in foreign subsidiaries	158	4,098	246
<b>Total net debt</b>	<b>-54,179</b>	-68,307	-64,343
<sup>1</sup> Of which loans from minority-owned German nuclear power companies.	-9,198	-14,885	-13,731

## CASH FLOW STATEMENT

### CASH FLOW STATEMENT

Amounts in SEK million	Q 2		Q 1-2		Full year	Latest 12
	2006	2005	2006	2005	2005	months (LTM)
<b>Operating activities</b>						
Funds from operations (FFO)	7,240	6,020	20,521	14,791	31,386	37,116
Cash flow from changes in operating assets and operating liabilities	1,889	-816	-2,716	-2,082	-6,963	-7,597
<b>Cash flow from operating activities</b>	<b>9,129</b>	5,204	<b>17,805</b>	12,709	24,423	29,519
<b>Investment activities</b>						
Investments	-3,233	-13,515	-5,669	-15,336	-24,497	-14,830
Divestments	704	141	1,130	251	785	1,664
Cash and cash equivalents in acquired/divested companies	-118	-	-193	-	17	-176
<b>Cash flow from investment activities</b>	<b>-2,647</b>	-13,374	<b>-4,732</b>	-15,085	-23,695	-13,342
<b>Cash flow before financing activities</b>	<b>6,482</b>	-8,170	<b>13,073</b>	-2,376	728	16,177
<b>Financing activities</b>						
Changes in short-term investments	-97	-1,709	209	-1,354	-25	1,538
Decrease in loans to minority owners in foreign subsidiaries	84	-	84	-	3,864	3,948
Loans raised <sup>1</sup>	-112	5,547	1,646	6,017	1,562	-2,809
Amortisation of debt	-3,536	-2,082	-7,995	-6,166	-9,667	-11,496
Issue of Capital Securities	-	9,248	-	9,248	9,248	-
Dividend paid to shareholders	-5,867	-5,771	-5,868	-5,771	-5,778	-5,875
<b>Cash flow from financing activities</b>	<b>-9,528</b>	5,233	<b>-11,924</b>	1,974	-796	-14,694
<b>Cash flow for the period</b>	<b>-3,046</b>	-2,937	<b>1,149</b>	-402	-68	1,483
<b>Cash and cash equivalents</b>						
Cash and cash equivalents at the beginning of the period	10,234	8,485	6,049	5,916	5,916	5,653
Cash flow for the period	-3,046	-2,937	1,149	-402	-68	1,483
Exchange rate differences	-111	105	-121	139	201	-59
<b>Cash and cash equivalents at the end of the period</b>	<b>7,077</b>	5,653	<b>7,077</b>	5,653	6,049	7,077
<b>ADDITIONAL INFORMATION</b>						
<b>Cash flow before financing activities</b>	<b>6,482</b>	-8,170	<b>13,073</b>	-2,376	728	16,177
<b>Financing activities</b>						
Dividend paid to shareholders	-5,867	-5,771	-5,868	-5,771	-5,778	-5,875
<b>Cash flow after dividend</b>	<b>615</b>	-13,941	<b>7,205</b>	-8,147	-5,050	10,302
<b>Analysis of change in net debt</b>						
Net debt at beginning of the period	-56,474	-51,395	-64,343	-55,411	-55,411	-68,307
Transitional effect on adoption of new accounting principles (IAS 39)	-	-	-	-584	-584	-
Cash flow after dividend	615	-13,941	7,205	-8,147	-5,050	10,302
Changes as a result of valuation at fair value	551	-717	1,480	-808	-10	2,278
Exchange rate differences on net debt	1,129	-2,254	1,479	-3,357	-3,288	1,548
<b>Net debt at the end of the period</b>	<b>-54,179</b>	-68,307	<b>-54,179</b>	-68,307	-64,343	-54,179
Free cash flow	6,729	2,809	13,742	8,823	14,341	19,260

<sup>1</sup> Net of short-term borrowings which have a maturity period of three months or less.

## CHANGES IN EQUITY

Amounts in SEK million	Q 1-2 2006			Q 1-2 2005			Full year 2005		
	Attributable to equity holders of the Parent Company	Attributable to minority interests	Total equity	Attributable to equity holders of the Parent Company	Attributable to minority interests	Total equity	Attributable to equity holders of the Parent Company	Attributable to minority interests	Total equity
Balance brought forward <sup>1</sup>	80,565	10,344	90,909	75,437	10,114	85,551	75,437	10,114	85,551
Transitional effect on adoption of new accounting principles (IAS 39)	-	-	-	-416	-24	-440	-416	-24	-440
Cash flow hedges	-1,789	-11	-1,800	-7,603	-147	-7,750	-10,124	-140	-10,264
Hedging of net investments in foreign operations	1,024	-	1,024	-1,438	-	-1,438	-1,639	-	-1,639
Translation differences	-2,255	-292	-2,547	3,041	426	3,467	3,765	291	4,056
<b>Income, net, recognised directly in equity</b>	<b>-3,020</b>	<b>-303</b>	<b>-3,323</b>	<b>-6,000</b>	<b>279</b>	<b>-5,721</b>	<b>-7,998</b>	<b>151</b>	<b>-7,847</b>
Profit for the period	10,685	693	11,378	7,977	509	8,486	19,235	1,283	20,518
<b>Total recognised income and expense for the period</b>	<b>7,665</b>	<b>390</b>	<b>8,055</b>	<b>1,977</b>	<b>788</b>	<b>2,765</b>	<b>11,237</b>	<b>1,434</b>	<b>12,671</b>
Dividend to shareholders	-5,800	-68	-5,868	-5,600	-171	-5,771	-5,600	-178	-5,778
Transfers within equity	-	-	-	-	-	-	-93	93	-
Group contributions to minority, net after tax	-	-	-	-	-	-	-	-119	-119
Changes in ownership	-	-231	-231	-	-64	-64	-	-976	-976
<b>Balance carried forward</b>	<b>82,430</b> <sup>2</sup>	<b>10,435</b>	<b>92,865</b>	<b>71,398</b> <sup>3</sup>	<b>10,643</b>	<b>82,041</b>	<b>80,565</b> <sup>4</sup>	<b>10,344</b>	<b>90,909</b>

<sup>1</sup> The balance brought forward has increased by 2,443 SEK million according to a reappraisal decision from the Swedish Tax Agency. See further page 11 under the heading Reappraisal decision from the Swedish Tax Agency.

<sup>2</sup> Of which Reserve for cash flow hedges, SEK -12,177 million.

<sup>3</sup> Of which Reserve for cash flow hedges, SEK -7,868 million.

<sup>4</sup> Of which Reserve for cash flow hedges, SEK -10,388 million.

## KEY RATIOS

### KEY RATIOS (Definitions on pages 21–22)

(in % unless otherwise stated)	Q 2		Q 1–2		Full year 2005 <sup>2</sup>	Latest 12 months (LTM)
	2006	2005 <sup>2</sup>	2006	2005 <sup>2</sup>		
Operating margin	<b>15.3</b>	16.7	<b>23.6</b>	21.8	21.3	22.4
Operating margin <sup>1</sup>	<b>15.0</b>	16.8	<b>23.1</b>	21.8	19.0	20.0
Pre-tax profit margin	<b>13.9</b>	14.1	<b>22.3</b>	19.6	20.3	21.6
Pre-tax profit margin <sup>1</sup>	<b>13.5</b>	14.1	<b>21.8</b>	19.6	17.9	19.3
Return on equity	–	–	–	–	23.2	24.1
Return on equity <sup>1</sup>	–	–	–	–	19.4	20.2
Return on net assets	–	–	–	–	17.8	19.9
Return on net assets <sup>1</sup>	–	–	–	–	15.8	17.7
Interest coverage ratio, times	<b>8.5</b>	6.2	<b>13.1</b>	10.0	9.3	10.7
Interest coverage ratio, times <sup>1</sup>	<b>8.3</b>	6.2	<b>12.8</b>	10.0	8.3	9.7
FFO interest coverage ratio, times	<b>10.9</b>	8.2	<b>14.8</b>	11.2	10.9	12.6
FFO interest coverage ratio, net, times	<b>21.8</b>	11.8	<b>35.0</b>	16.7	22.8	34.7
Cash flow interest coverage after maintenance investments, times	<b>10.2</b>	4.3	<b>10.3</b>	7.1	5.5	7.0
Equity/assets ratio	<b>27.4</b>	25.2	<b>27.4</b>	25.2	27.5	27.4
Net debt/equity ratio, times	<b>0.58</b>	0.83	<b>0.58</b>	0.83	0.71	0.58
Net debt/net debt plus equity	<b>36.8</b>	45.4	<b>36.8</b>	45.4	41.4	36.8
Interest-bearing liabilities/interest-bearing liabilities plus equity	<b>42.6</b>	51.6	<b>42.6</b>	51.6	46.4	42.6
FFO/interest-bearing liabilities	–	–	–	–	39.9	53.8
FFO/net debt	–	–	–	–	48.8	68.5
EBITDA/net financial items, times	<b>26.6</b>	15.9	<b>42.0</b>	22.7	29.4	42.1
EBITDA/net financial items, times <sup>1</sup>	<b>26.2</b>	15.9	<b>41.3</b>	22.7	27.4	39.0

<sup>1</sup> Excl items affecting comparability.

<sup>2</sup> Certain values are adjusted compared to previously published information in Vattenfall's six-month interim report for 2005 and annual report for 2005. See page 11 under the headings Reappraisal decision from the Swedish Tax Agency and Accounting Principles, respectively.

## QUARTERLY INFORMATION

Amounts in SEK million	Q 2 2006	Q 1 2006 <sup>2</sup>	Q 4 2005 <sup>2</sup>	Q 3 2005 <sup>2</sup>	Q 2 2005 <sup>2</sup>	Q 1 2005 <sup>2</sup>
<b>Income statement</b>						
Net sales	38,070	40,432	37,280	27,550	29,292	35,036
Cost of products sold	-29,583	-25,759	-26,991	-21,455	-20,275	-24,915
Other operating expenses and operating revenues, net	-2,963	-2,641	-124	-3,088	-4,118	-1,155
Participations in the results of associated companies	310	657	345	56	7	126
Operating profit before depreciation and amortisation (EBITDA)	9,245	16,115	14,429	6,567	8,868	12,519
Operating profit (EBIT)	5,834	12,689	10,510	3,063	4,906	9,092
Financial items, net	-559	-479	409	-447	-783	-590
Financial items, net <sup>1</sup>	-348	-256	-236	-262	-559	-383
Profit before tax	5,275	12,210	10,919	2,616	4,123	8,502
Profit for the period	3,399	7,979	10,175	1,857	2,917	5,569
- of which attributable to equity holders of the Parent Company	3,183	7,502	9,444	1,814	2,793	5,184
- of which attributable to minority interests	216	477	731	43	124	385
<b>Balance sheet</b>						
Non-current assets	259,325	261,725	259,964	254,392	260,230	241,525
Short-term investments	7,628	7,692	8,025	8,219	9,300	7,465
Cash and cash equivalents	7,077	10,234	6,049	8,596	5,653	8,485
Other current assets	65,257	82,255	56,383	51,513	49,853	46,493
<b>Total assets</b>	<b>339,287</b>	<b>361,906</b>	<b>330,421</b>	<b>322,720</b>	<b>325,036</b>	<b>303,968</b>
Equity	92,865	93,386	90,909	82,940	82,041	88,987
- of which attributable to equity holders of the Parent Company	82,430	82,722	80,565	73,331	71,398	78,449
- of which attributable to minority interests	10,435	10,664	10,344	9,609	10,643	10,538
Capital Securities	9,074	9,241	9,268	9,176	9,248	-
Other interest-bearing liabilities	59,968	65,396	69,395	71,745	78,110	71,389
Interest-bearing provisions	46,899	47,479	47,691	45,466	45,787	45,372
Pension provisions	17,211	17,486	17,432	17,222	17,337	16,720
Deferred tax liabilities	39,202	39,354	39,927	42,191	41,784	40,056
Other non-interest-bearing liabilities	74,068	89,564	55,799	53,980	50,729	41,444
<b>Total equity and liabilities</b>	<b>339,287</b>	<b>361,906</b>	<b>330,421</b>	<b>322,720</b>	<b>325,036</b>	<b>303,968</b>
Net assets	147,383	154,266	155,237	145,834	148,946	133,796
Net debt	-54,179	-56,474	-64,343	-63,800	-68,307	-51,395
<b>Cash flow</b>						
Funds from operations (FFO)	7,240	13,281	12,674	3,921	6,020	8,771
Cash flow from changes in operating assets and operating liabilities	1,889	-4,680	-8,698	3,817	-816	-1,266
Cash flow from operating activities	9,129	8,601	3,976	7,738	5,204	7,505
Cash flow from investment activities	-2,647	-2,010	-4,251	-4,359	-13,374	-1,711
Cash flow before financing activities	6,482	6,591	-275	3,379	-8,170	5,794
Changes in short-term investments	-97	306	243	1,086	-1,709	355
Loans raised/Amortisation of debt, net	-3,564	-2,701	-2,542	-1,550	3,465	-3,614
Issue of Capital Securities	-	-	-	-	9,248	-
Dividend paid to shareholders	-5,867	-1	-3	-4	-5,771	-
Cash flow from financing activities	-9,528	-2,396	-2,302	-468	5,233	-3,259
<b>Cash flow for the period</b>	<b>-3,046</b>	<b>4,195</b>	<b>-2,577</b>	<b>2,911</b>	<b>-2,937</b>	<b>2,535</b>
Free cash flow	6,729	7,013	389	5,129	2,809	6,014

<sup>1</sup> Excl discounting effects attributable to provisions and returns from the Swedish Nuclear Waste Fund.

<sup>2</sup> Certain values are adjusted compared to previously published information in Vattenfall's interim reports and annual report for 2005. See page 11.

**KEY RATIOS (Definitions on pages 21–22)**

(in % unless otherwise stated)	Q 2 2006	Q 1 2006 <sup>3</sup>	Q 4 2005 <sup>3</sup>	Q 3 2005 <sup>3</sup>	Q 2 2005 <sup>3</sup>	Q 1 2005 <sup>3</sup>
Return on equity <sup>2</sup>	<b>24.1</b>	24.7	23.2	14.8	14.1	12.7
Return on equity <sup>1,2</sup>	<b>20.2</b>	20.9	19.4	15.7	15.5	14.2
Return on net assets <sup>2</sup>	<b>19.9</b>	19.6	17.8	13.9	13.5	12.6
Return on net assets <sup>1,2</sup>	<b>17.7</b>	17.4	15.8	14.8	14.8	14.1
Interest coverage ratio, times	<b>8.5</b>	17.5	11.0	5.1	6.2	15.2
Interest coverage ratio, times <sup>1</sup>	<b>8.3</b>	17.2	8.1	5.1	6.2	15.2
Equity/assets ratio	<b>27.4</b>	25.8	27.5	25.7	25.2	29.3
Net debt/equity ratio, times	<b>0.58</b>	0.60	0.71	0.77	0.83	0.58
Net debt/net debt plus equity	<b>36.8</b>	37.7	41.4	43.5	45.4	36.6
FFO/interest-bearing liabilities <sup>2</sup>	<b>53.8</b>	48.1	39.9	31.5	27.9	33.7
FFO/net debt <sup>2</sup>	<b>68.5</b>	63.6	48.8	40.0	35.7	46.8

<sup>1</sup> Excl items affecting comparability.

<sup>2</sup> Rolling 12-month values.

<sup>3</sup> Certain values are adjusted compared to previously published information in Vattenfall's interim reports and annual report for 2005. See page 11.

**KEY RATIOS RENEWABLE ENERGY GENERATION IN THE NORDIC COUNTRIES**

(in SEK million unless otherwise stated)	Wind power		Hydro power		Heat		Total	
	Q 2, 2006	Full year 2005	Q 2, 2006	Full year 2005	Q 2, 2006	Fy11 year 2005	Q 2, 2006	Full year 2005
Operating profit	-2.8	3.8	47.6	70.3	178.9	285.3	223.6	359.4
Investments	368.5	18.4	16.0	21.0	112.3	512.3	496.8	551.7
Non-current assets	739.3	380.0	251.4	277.6	3,623.7	3,754.9	4,614.4	4,412.5
Return on non-current assets, (%)	-0.8	1.0	37.8	25.3	9.9	7.6	9.7	8.2

The profit for heating operations varies considerably over the year. The greater part of the year's profit is generated during the first and fourth quarters when demand for heating peaks.

<b>EBIT</b>	=	Earnings Before Interest and Tax.
<b>EBITDA</b>	=	Earnings Before Interest, Tax, Depreciation and Amortisation.
<b>FFO</b>	=	Funds From Operations.
<b>Items affecting comparability</b>	=	Non-recurring capital gains and capital losses from shares and other non-current assets. For 2005, the compensation received from the Swedish state for the closure of Barsebäck 2 and relevant costs for the impairment losses of the assets are also reported as items affecting comparability.
<b>Free cash flow</b>	=	Cash flow from operating activities minus maintenance investments
<b>Capital Securities</b>	=	Perpetual subordinated securities, junior to all Vattenfall's unsubordinated debt. Reported as interest-bearing non-current liabilities.
<b>Net assets</b>	=	Balance sheet total minus non-interest-bearing liabilities, provisions, interest-bearing receivables, funds in the Swedish Nuclear Waste Fund, cash and cash equivalents, short-term investments.
<b>Net debt</b>	=	Interest-bearing liabilities minus long-term loans to minority owners in foreign subsidiaries, cash and cash equivalents, short-term investments.
<b>Operating margin, per cent</b>	= 100 x	$\frac{\text{Operating profit (EBIT)}}{\text{Net sales}}$
<b>Pre-tax profit margin, per cent</b>	= 100 x	$\frac{\text{Profit before tax}}{\text{Net sales}}$
<b>Return on equity, per cent</b>	= 100 x	$\frac{\text{Profit for the period attributable to equity holders of the Parent Company}}{\text{Average equity for the period attributable to equity holders of the Parent Company excl. the Reserve for cash flow hedges}}$
<b>Return on net assets, per cent</b>	= 100 x	$\frac{\text{Operating profit (EBIT) plus discounting effects attributable to provisions}}{\text{Weighted average of the net assets for the period}}$
<b>Interest coverage ratio, times</b>	=	$\frac{\text{Operating profit (EBIT) + financial income excl. discounting effects attributable to provisions and returns from the Swedish Nuclear Waste Fund}}{\text{Financial expenses excl. discounting effects attributable to provisions}}$
<b>FFO interest coverage ratio, times</b>	=	$\frac{\text{Funds from operations (FFO) + financial expenses excl. discounting effects attributable to provisions}}{\text{Financial expenses excl. discounting effects attributable to provisions}}$
<b>FFO interest coverage ratio, net, times</b>	=	$\frac{\text{Funds from operations (FFO) + net financial items excl. discounting effects attributable to provisions and returns from the Swedish Nuclear Waste Fund}}{\text{Financial items excl. discounting effects attributable to provisions and returns from the Swedish Nuclear Waste Fund}}$
<b>Cash flow interest coverage after maintenance investments, times</b>	=	$\frac{\text{Cash flow from operating activities minus maintenance investments + financial expenses excl. discounting effects attributable to provisions}}{\text{Financial expenses excl. discounting effects attributable to provisions}}$
<b>Equity/assets ratio, per cent</b>	= 100 x	$\frac{\text{Equity}}{\text{Balance sheet total}}$

## DEFINITIONS AND EXCHANGE RATES

<b>Net debt/equity ratio, times</b>	=	$\frac{\text{Net debt}}{\text{Equity}}$
<b>Net debt/net debt plus equity, per cent</b>	= 100 x	$\frac{\text{Net debt}}{\text{Net debt} + \text{equity}}$
<b>Interest-bearing liabilities / interest-bearing liabilities plus equity, per cent</b>	= 100 x	$\frac{\text{Interest-bearing liabilities}}{\text{Interest-bearing liabilities} + \text{equity}}$
<b>FFO / interest-bearing liabilities, per cent</b>	= 100 x	$\frac{\text{Funds from operations (FFO)}}{\text{Interest-bearing liabilities}}$
<b>FFO / net debt, per cent</b>	= 100 x	$\frac{\text{Funds from operations (FFO)}}{\text{Net debt}}$
<b>EBITDA / net financial items, times</b>	=	$\frac{\text{Operating profit before depreciation and amortisation (EBITDA)}}{\text{Financial items excl discounting effects attributable to provisions and returns from the Swedish Nuclear Waste Fund}}$

## EXCHANGE RATES

For the Vattenfall Group, key exchange rates applied in the accounts:

	Q 2		Q 1-2		Full year 2005	30 June		31 Dec 2005
	2006	2005	2006	2005		2006	2005	
<b>Average rates</b>								
EUR	9.2975	9.2273	9.3306	9.1526	9.2812	9.2240	9.4390	9.4300
DKK	1.2465	1.2390	1.2508	1.2296	1.2456	1.2370	1.2670	1.2640
NOK	1.1823	1.1455	1.1742	1.1240	1.1559	1.1655	1.1925	1.1760
PLN	2.3550	2.2300	2.3971	2.2429	2.3062	2.2800	2.3400	2.4400
USD	7.4008	7.3378	7.5959	7.0956	7.4455	7.2550	7.8180	7.9530
<b>Balance sheet date rates</b>								
EUR						9.2240	9.4390	9.4300
DKK						1.2370	1.2670	1.2640
NOK						1.1655	1.1925	1.1760
PLN						2.2800	2.3400	2.4400
USD						7.2550	7.8180	7.9530

This report has been translated from the Swedish original

## REVIEW REPORT

### Introduction

We have reviewed the interim report of Vattenfall AB for the period January 1 to June 30, 2006. The board of directors and the managing director are responsible for the preparation and presentation of this interim report in accordance with IAS 34 and the Annual Accounts Act. Our responsibility is to express a conclusion on this interim report based on our review.

### Scope of Review

We conducted our review in accordance with the Standard on Review Engagements SÖG 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*, issued by FAR. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Standards on Auditing in Sweden RS and other generally accepted auditing practices. The procedures performed in a review do not enable us to obtain a level of assurance that would make us aware of all significant matters that might be identified in an audit.

Therefore, the conclusion expressed based on a review does not give the same level of assurance as a conclusion expressed based on an audit.

### Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim report is not prepared, in all material aspects, in accordance with IAS 34 and the Annual Accounts Act.

Stockholm, 27 July 2006

Ernst & Young AB  
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Per Redemo  
Authorized Public Accountant  
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